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A POPULAR TREATISE

ON

THE CURRENCY QUESTION

WRITTEN FROM A

SOUTHERN POINT OF VIEW

BY

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William

U. S. JUDGE OF THE EASTERN DISTRICT OF VIRGINIA

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PUBLISHERS' NOTE.

THE publishers are interested in presenting to the public this essay of Judge Hughes, which contains an able and forcible argument against the inflationists, who demand an unlimited issue by the government of an irredemable currency, and a clear and convincing statement of the service rendered to the country by the national banking system, in reply to those who would destroy this system, and would replace it by a return to the old method of irresponsible State banks, the unguaranteed notes of which would be, as before, uncurrent beyond the immediate neighborhood of their place of issue.

The present position of the author, and his record during the war as an editor of one of the ablest of the Confederate journals, the *Richmond*

Examiner, will cause his views to have special weight among the voters of the South, who should recognize that they have a very direct and essential interest in the currency of the country being based upon the world's standard of value.

We desire, however, to express our dissent from the positions taken by the author in his twelfth chapter, in reference to the demonetization and remonetization of silver. It will be observed that he is a follower of Cernuschi and Leon Say, and not of Mr. Bland and Senator Jones. He advocates the use of a silver dollar, but it is one worth one hundred cents, and he condemns the legislation which made eighty-four cents' worth of silver a legal tender for a debt of one dollar. It is our opinion, however, that the use of two standards of value is practically as impossible to carry out as would be the use of two yard-sticks of different or fluctuating lengths; and it seems to us that the fact that in the course of five years' time the bullion value of the silver dollar of 412 grains has fluctuated from 3 per ct. above par to 16 per ct. below par, is conclusive against the use of silver as a legal tender, showing that it works injustice by turns to debtor and creditor. The great commercial nations of the world are recognizing the disadvantages of the use of silver as

a money of account, and have, one after the other, brought their currencies to a gold basis, (even France having now stopped the coinage of silver,) and the United States will therefore incur some special risks and disadvantages if it now rashly opens its mints to the discarded silver of Europe. This risk is recognized even by such earnest bimetallists as Cernuschi, who strongly advises the United States to repeal their recent silver legislation.

THE PUBLISHERS.

PREFACE.

THE contents of this volume first appeared in the form of anonymous essays in "*The State*" newspaper of Richmond, Virginia. These have been somewhat changed in form, substance and arrangement, and have also been condensed in some features and amplified in others, as now published. The work is, in origin, aim and spirit, a popular treatise, making no pretension to scientific method or completeness.

The writer lays no claim to special proficiency in the branch of political economy treated, or to originality in the matter presented. He merely hopes that the book will be found better to meet the needs of the public debater, and more conveniently to supply the wants of the hour, in the facts and views brought forward, and in the manner of doing so, than many of the numerous scientific treatises which have appeared on the fruitful subject of the currency.

His endeavor has been to combat the idea that the producing regions of the United States could be peculiarly benefited by a redundant paper currency; and he has naturally addressed his observations with more directness and solicitude to southern, than to any other class of readers.

The reader is requested to excuse the egotism apparently indicated by the use of the first-person-singular; and bear in mind that the contents of this volume originally appeared under an anonyme.

NORFOLK, VA., *December*, 1878.

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THE CURRENCY QUESTION.

CHAPTER FIRST.

INTRODUCTION — MR. GLADSTONE'S TRIBUTE TO AMERICAN INTEGRITY—SOUTHERN EXPORT PRODUCTS — EXTRAORDINARY MATERIAL DEVELOPMENT OF THE UNITED STATES.

THE subject of currency has well nigh superseded all questions of party politics in the public mind. The popular thought is engrossed with the problems, What shall be the money of the people? Shall it be paper, or gold and silver and their equivalent? If paper, from what source and in what quantity shall it be issued? Shall it be made convertible into specie? And if not, how shall it be made a reliable representative and embodiment of values?

I propose to deal with these questions. I shall do so in the spirit of inquiry and suggestion, rather than of dogmatism and assertion, and I trust I shall

be free from that mental vertigo which seems to afflict so many of the writers on these topics. In order that the reader may know in advance the drift of what is said in this book, I advertise him at the outset that my proposition will be that we cannot safely, or without crushing disaster, sooner or later, in ordaining a currency for this vast country, depart from those standards of value which are accepted as such by the nations of the world. An earnest, protracted, and somewhat comprehensive study of the subject and of most of the authors who have treated it, has established the conclusion in my mind that the money of this country should be the same as the money of the world; or else, if another material be used in its stead, the substitute should be readily, constantly, and universally convertible into the money of the world.

And this I consider to be vitally important to the Southern States; inasmuch as an inflated paper circulation and a protective tariff are kindred measures, operating to isolate this country, so far as those measures can affect it, in its commerce and material interests, from the rest of the world, and thus to prevent those sections of the Union which supply the great staples of export on which our foreign commerce rests, from obtaining their equivalent in the

foreign commodities for which they are exchanged, thereby subjecting them to a double tax, to wit: First, to the necessity of receiving depreciated paper money for exports which command gold and silver abroad; and, second, of paying for the goods bought in importation, or for like goods manufactured in this country, more than they are worth by the amount of the protective duty laid upon the imported articles. Whether this be or be not good democratic doctrine—good southern doctrine—now as formerly, does not depend upon the resolves of party conventions or the asseverations of party politicians, but upon the permanency of true principles, and the everlasting consistency of truth.

Extreme views, however, are never reliable; and I shall not contend that paper money,* whether issued by Government or by corporate companies, may not be made equivalent to the money of the world, as is the case in Great Britain, France, and Germany. I shall not contend that paper money, provided it be kept at an equivalency with the money of the world, may not serve at home every purpose of gold and silver coins. And I shall be far

* I use the term "paper money" for the sake of brevity. Paper notes are but promises to pay money; they are not money itself. The phrase will be used throughout this volume in that sense only to avoid paraphrase.

from contending that it is necessary, in order to preserve this equivalency, that the amount of the paper circulation should be contracted and restricted below the amount of money needed by the business of the country. On the contrary, I believe that the circulation may be rather larger in volume than the needs of the country for currency call for; and yet be easily maintained in healthy equivalency with the money of the world. But while I believe that an unnecessary contraction of the currency was enforced between 1866 and 1872, which contributed to the collapse of 1873, and that a larger amount of currency than is now legalized might safely be authorized; yet, I am convinced that the distress of the country is not due just now to a scarcity of money, but, on the contrary, that there is at present more money ready for circulation and seeking employment than obtains it. The financial ailment of the country seems to me to consist in the fact that the stagnant prices of property do not promise to money any chance of profit if employed in trade, and that capital, though eagerly looking for employment, is too distrustful of trade to lend itself to ventures. After this frank advertisement of my general views on these subjects, I will now enter upon their discussion:

Our country is just arrived, after fearful tribulations, at the threshold of Resumption. Its money is equivalent to the money of the world. In the Confederacy, we saw our circulation to the amount of hundreds of millions of dollars turn to dry leaves in our hands. We had exchanged for it almost our entire wealth, and it perished with the cause which we lost, sweeping away the patrimonies of nine-tenths of our people, and these the most honorable and patriotic. In the Union a like result would have ensued, but for the extraordinary measures which were taken after the close of the civil war to avert it. Under the influence of these measures, which, to the credit of both political parties be it said, were taken by the almost unanimous vote in Congress of both parties, we have seen the money of the Government, for which the people had exchanged immense properties, gradually appreciate from the value of thirty-six cents in the dollar to the par of silver and gold. Never before in the history of finance had an inconvertible paper currency, put forth in vast amounts by Government, under the pressure of war, been known to recover from the verge of worthlessness to the value of specie. Nor was there ever before the present time, except Bank of England notes, a paper money in existence which

was worth as much at the antipodes of the globe as at the places of issue. That phenomenon is now presented, even in anticipation of the legal day of resumption, by the greenback notes of the Government of the United States, which command in London, Paris, Berlin and Canton the value in gold mentioned on their face. This money, by virtue of honest legislation, jointly Republican and Democratic, has risen from the level of an almost hopelessly depreciated paper currency of a single struggling nationality to be at par with the money of the world.

While this unprecedented result has been in process of accomplishment, the American people have been working out another unexampled achievement, which is eloquently described by Mr. Gladstone in the number of the *North American Review* for September and October 1878, from which I extract some of his sentences :

" More remarkable still was the financial sequel to the great conflict. The internal taxation for Federal purposes, which, before its commencement, had been unknown, was raised in obedience to an exigency of life and death so as to exceed every present and past example. It pursued and worried all the transactions of life. The interest of the

American debt grew to be the highest in the world, and the principal touched $2,800,000,000.* Here was provided for the patience of the people a touchstone of extreme severity.

"In England, at the close of the great French war, the propertied classes, who were supreme in Parliament, at once rebelled against the Tory Government, and refused to prolong the income tax even for a single year. We talked big, both then and now, about the payment of our national debt; but sixty-three years have now elapsed, all of them, except two, called years of peace, and we have reduced the huge total by about one-ninth; that is to say, by little over $500,000,000, or scarcely more than $7,500,000 a year. This is the conduct of a State elaborately digested into orders and degrees, famed for wisdom and forethought and consolidated by a long experience. But America continued long to bear on her unaccustomed and still smarting shoulders the burden of the war taxation.

"In twelve years she had reduced her debt by $790,000,000, or at the rate of $65,000,000 for every year. In each twelve months she had done what

* Here, as throughout this volume, where authors quoted from use foreign denominations of money, I use the equivalents in the American denominations.

we did in eight years. Her self-command, self-denial and wise forethought for the future have been, to say the least, eight-fold ours. These are facts which redound greatly to her honor, and the historian will record with surprise that an enfranchised nation tolerated burdens which in this country a selected class, possessed of the representation, did not dare to face; and that the most unmitigated democracy known to the annals of the world resolutely reduced, at its own cost, prospective liabilities of the State, which the aristocratic and plutocratic and monarchical government of the United Kingdom has been contented ignobly to hand over to posterity. Such facts should be told out, and the record of them may some day be among the means of stirring us up to a policy more worthy of the name and fame of England."

Such praise from the foremost statesman of England, from a historian, scholar and philosopher so preeminent as Mr. Gladstone is the more valuable because it is merited. His statements are true. And I am not only proud as an American citizen that so distinguished a proof of popular integrity has been displayed to the world and given to history, but I exult as a southern man that the credit of these achievements is even more largely due to our own section than to

other parts of the Union. While our labor system was in the throes and disintegration of a complete social and political reorganization, we yet furnished to the national commerce a larger quota of leading exports, and to the national exchequer a larger proportion of taxes than we had ever done in the prosperous days of slavery. Amid the brutalities of ku-klux klans and the pilferings of carpet-bag adventurers, amid the disorders of the most shameful series of partisan transactions which ever disgraced the political annals of a country, the great mass of the Southern people who took no part in politics—the persevering white men and the patient black men—have with quiet and steady industry been the principal, but silent, factors in working out for the nation the honorable results which have been described. And never did the South labor more truly in her own special interests than in indirectly supplying the materials for the reduction of the national debt by more than a fourth, and for an equivalent abatement of the national taxes necessary for its support; for no part of the Union has so much to gain from the invaluable result thus effected; the equalization of the money of the United States with the money of the world.

We now live, be it remembered, in a wider

world than ever before, a world brought together in closer and closer association by the ocean steamer, and telegraph, and the continental railroad. Our commerce with foreign peoples reaches everywhere over the surface of the globe. It has grown into proportions not dreamed of fifty or even ten years ago. Our exports have come almost to double our imports, and both to aggregate twelve hundred millions of dollars per annum. Our foreign trade is absolutely cosmopolitan, pervading all the seas and continents of the earth, and comprehending as many varieties of commodities as there are climates and soils and industries in the world. The following are its aggregate figures for the fiscal year ending June 30, 1878: Exports, $694,884,200; imports, $437,051,533; total, $1,131-933,733. Excess of exports, $257,832,667.

It is this condition of our foreign trade which has enabled the Government of the United States to bring its paper money to the par of specie, and has rendered possible a rapid reduction of the national debt. The principal agents in building up this condition of our foreign trade are the staple products of the South.*

* The exports of products grown and produced in the Southern States sent abroad in the fiscal year ending on the 30th, of June, 1878,

With such a foreign trade it would seem to be the last resort of unwisdom for this country to deliberately desist from the purpose of making her money equivalent to the money of the world. If we should abandon a money of universal value and substitute a money of local value, what shall the substitute be? It must, of course, perform the office of money for the whole domestic commerce of the country. That domestic commerce, if the mutual dealings of the people of thirty-eight great States occupying the surface of a continent more fertile and full of varied resources than any other in the world, can any longer be called domestic,

are given below. The miscellaneous item is the amount at a low estimate of the portion of products furnished for export by the Southern States, the great bulk of which go from other sections of the Union. The values and not the quantities are given.

Cotton	$190,044,857
Tobacco	28,124,659
Bread stuffs, estimated	18,177,480
Sugar, etc	4,000,000
Naval Stores	2,487,404
Rice	32,866
Portions of miscellaneous articles	15,000,000
Total from the South	$257,867,266

This was about 36 per cent of the grand total of exports from the Union, which was $708,615,195.

is many, many fold greater than our foreign trade, and stupendous almost beyond arithmetical computation. What could be plainer than the great truth that the day of municipal restrictions upon trade, of local currencies, and provincial schemes of finance and banking is ended forever in this country? With prophetic forecast the founders of the Republic gave to the national Congress the control of the commerce and currency of the continent. That control can never revert to the States. At this era of national development, to talk of State banks of issue, State systems of currency, and local policies of finance, is to betray a provincial ignorance of public affairs and of the living times; is to resurrect ideas that now excite in the intelligent mind no other sentiment than of pitying disdain. Only the smallest politicians in the narrow circles of the most remote interior localities can afford to broach such ideas. Real statesmanship has dismissed them from all thought in its expanded consideration of the affairs of the American continent. In considering the subject of a currency for this country, I should trifle with the attention and insult the intelligence of the reader if I should bestow any considerable time or argument upon State banks of issue or currencies regulated by State laws. Congress has

wisely, by the votes of both political parties, taxed them out of existence; and no national party will ever be found in this country willing to call them again into existence.

CHAPTER SECOND.

HOW AND HOW FAR PAPER MONEY HAS VALUE—THE FIAT CAN GIVE IT NO REAL VALUE.

IF I execute my note for $500, I convert a worthless piece of paper into an instrument which commands an equivalent amount of my property. If I am known to be solvent, the note will exchange for its value with whoever is willing to own it. If I make other like notes, they will be received by those who have use for them and know me to be solvent, as long as the notes are believed not to exceed in amount my means of paying them. The notes, therefore, are only of real value to the extent of the property which I own applicable to their payment. There is nothing magical in the fact that a blank piece of paper is, by a little writing, made worth $500. There is only the simple fact, comprehended by the plainest mind, that the law of the land and my own conscience subjects my property to its payment.

If, instead of an individual citizen, this putting

out of notes is done by an incorporated bank, the case as to the value of the paper will be the same. There is nothing in the impression printed upon the notes that gives them value; for they will have no value except in the property which the law subjects to their payment. In either case, whether that of the notes of an individual or of a bank, experience has taught, that if they be freely received, the issuer is under a constant impulse to put out more of them than prudence will justify; and that those who take them, having once received them with confidence, are prone to extend that confidence further, and to continue it longer than is wise and safe.

This tendency, as to bank notes, is increased by the fact that they have currency as money. A peculiar characteristic of paper money, which distinguishes it from the notes of individuals which are not money, still further promotes this tendency to over-issuing on the part of the banks, and to over-confidence on the part of the public. The distinction to which I allude between paper which is money, and that which is not, is easily shown.

There is some debate as to what forms of paper credit are to be included in the term money. Some contend that checks of individuals drawn on banks

are money; that the deposits held by individuals in banks are money, and that certificates of banks and notes and bills at sight, and even on time, drawn to order or bearer, are money. But it seems to me that the distinction between such paper and money is plain and palpable, and by money in this connection, I mean money that passes current, whether good or bad, for, I need not say that there may be bad money as well as good. Whatever form of paper passes current and is accepted generally by creditors in payment of debts, by sellers in payment of purchases, by borrowers in the obtainment of loans, without a right of resort by the receivers of the paper to the persons (except the original issuers) from whom they obtain it, takes the character of money. But if the receiver has any right to look to him from whom he takes the paper to redeem it in the event it is left in his hands, then that paper is not money. As between the buyer and seller of goods, a bank note is money; but as between the bank which issues the note and the holder of it, the note is not money. The right of recourse exists in respect to the bank, but does not exist as against the purchaser of goods. Checks, therefore, and bills payable to bearer, and paper of like character, are not money. Bank notes

are a currency used by all classes, even women, children and laborers, whether they are responsible or not; while the classes of paper first mentioned pass only among responsible persons, each fresh transmitter of it making himself responsible to the receiver for its value. The classes of paper which are not money are used to an immense amount in commercial communities, and dispense largely with the use of money; but nevertheless, they are only substitutes for money and not money itself.* Money is that which passes from hand to hand in discharge of debts and payment for goods, for which the holder has no recourse against the payer, but only against the issuer.

It is evident, from the peculiar capability of paper money of passing from hand to hand without

* It may be said with almost truth that a bank is an institution for dispensing with the use of money. Its agencies for doing so are checks and bills or notes, which are evidences of debt instead of cash. This fact received a very remarkable illustration from an analysis made by Sir John Lubbock, of a sum of £19,000,000 paid into his banking firm in the city of London. It was composed of,

Checks & Bills	£18,395,000
Bank-notes (currency)	487,000
Coin	118,000
	£19,000,000

The analysis showed that three per cent only of the receipts were cash, and that coin constituted only one-half per cent or one in two hundred of the whole sum.

inquiry or responsibility of the last payer of it to the holder, that it is apt to obtain an undue currency, and that worthless paper money when once afloat may remain in circulation long after its worthlessness is well known to the experienced and well-informed. There is, indeed, no substance in regard to which, more enormous, monstrous and heartless frauds have been practiced upon the public than paper money. In regard to this latter, over-issuing, even by honest banks, is the rule rather than the exception. In general, undue confidence in paper money on the part of the public, is the rule rather than the exception. This over-issuing tendency on one hand, and too liberal confidence on the other, have been the Iliad of many woes to our country.

Yet paper money is a necessity to the advanced society of modern times. It may be issued by Government, by corporations, or by individuals, and will have currency if it possesses the attribute of being generally receivable and payable without liability between the receiver and payer. There may be many grades of badness and goodness in paper money; and in this fact consists its evil. If a check of John Smith for a thousand dollars is offered by one citizen to another in settlement of a transaction between the two, the citizen receiving it will do

so only on being satisfied of Smith's solvency, and the citizen paying it would be responsible for the payment of the check. But if John Smith's bank issues bank notes to the amount of many thousands of dollars, the community at large will receive and take the bank notes long after Smith's solvency passes under suspicion, each man trusting to get the notes off on some other person, and each knowing if he does, he escapes responsibility. Provided that that exceedingly gullible institution, the great, honest Public, once allows certain paper money to obtain currency, then the money may be ever so bad and yet have at least a local currency. The prime difficulty incident to paper money lies in the exceeding gullibility of that exceedingly gullible institution, always exceedingly willing to be gulled, and exceedingly happy when gulled, the great confiding Public. It is in this gullibility, or, if we recur to the vocabulary of Davy Crockett, this humbugability, of the Public that the greenback craze has its origin.

Yet it is true that the notes of John Smith's bank will not obtain currency in the beginning unless they are exchangeable or redeemable in what the community regard and receive as money; and if it be at any time demonstrated, absolutely demonstrated, that the notes of John Smith's bank are

not exchangeable and receivable in money of the public at large, money of account, then, even the bank notes of John Smith's bank will be inevitably repudiated by a no longer exceedingly gullible, but now an exceedingly indignant, Public. There is a wide difference between the pleasure of passing a doubtful bank note upon another, and that sensation of being cheated, which is felt by the holder of a lot of bank notes of John Smith's bank, which John Smith's cashier, in the politest manner in the world, informs the holder cannot be on that day redeemed.

After all, it is redeemability, exchangeability, with what is undoubtedly money, and is universally received as money, that tests and supports the currency of paper money. And so, though the gullibility of the public may give currency for a long period of time to paper money, yet, if even the best paper, even the Treasury notes bearing the stamp and fiat of the United States, have not the attribute of redeemability in what the public regards as money, then sooner or later, the sentiment of the public will change towards it from exceeding fondness to exceeding aversion, when the inevitable judgment day of redemption (or repudiation) comes. We of the South need not to be reminded of our experience with Confederate money.

Returning to my original line of remark, it is plain that there is no magic virtue in the words and characters engraved on a bank note to give it value; and that the bottom fact connected with paper money is that it is only valuable so long as its issuer is solvent and can be made to pay what the paper promises. If the issues be excessive, and pass beyond the ability of the issuer to redeem them, whether the inflation be gradual or rapid, collapse and loss must infallibly attend the final conclusion of the business; and such conclusion must inevitably come sooner or later, for nothing is more certain than the pay-day of a promissory note.

If these issues are made by Government instead of individuals or banks, then there is only one difference which arises in the case. Although such paper binds all the property of the community, yet, if it is not voluntarily redeemed by the Government, it is in the condition of a debt which cannot be enforced. There is abundant property ultimately liable for such a public debt, but the absence of a remedy for enforcing payment renders the paper, if Government does not voluntarily liquidate it, wholly irredeemable. The difference between an issuer of paper willing but unable and one able but unwilling and not compellable to pay is nothing in

practice; for in either case the paper is irredeemable. To cure such a defect attaching to its own paper issues, government sometimes makes its money a legal tender for debts between man and man; and sometimes also makes it receivable in payment of revenues due to itself. The first expedient used without the other may give greater currency to its paper; but unless resorted to under the stress of a great public necessity it is not only unjust, but verges closely upon the confines of a public fraud. The Confederate Government refused to resort to it. When Government will not itself redeem or receive its own promises to pay, the public sense of justice revolts at its requiring its citizens to receive them from each other in discharge of their private claims. It is but an indirect method of appropriating private property to public debts, and turning over its victim to practice the same wrong upon his fellow citizens. The essential fact in the case of paper money put out by private issuers, is, I repeat, that it has no value except what it derives from the estates of those who issue it. The kindred fact in regard to paper money issued by Government is, that though there be abundant property out of which the paper might be redeemed, yet unless Government voluntarily redeems it, or receives it in

taxes, or subjects its citizens' property to its payment, it has no practical value.

It is irredeemable money. Popular patriotism and popular confidence in the Government may indeed operate to induce the public to support the circulation of their government's paper, but this only occurs in prosperous times; for confidence is as much an idiosyncracy of the popular mind at one period as distrust is at another. And all reason and history teach that irredeemable currencies are sure sooner or later to have their day of grief. When the great wave of popular distrust sweeps over society, the uncomfortable fact of the worthlessness of paper money whose payment cannot be enforced, even though issued by the Government, will surely assert itself, in loss to nearly all, and in ruin to the most patriotic supporters of the Government.

I do not think that any recondite thought or deep philosophy is needed for comprehending the fact which I have thus set out, that the usual insignia printed upon paper money impart to it no magic virtue; and that paper money has no other value whatever than what it will command in redemption. This is plain fact; it is absolute, axiomatic truth. Granted that popular confidence and

popular ignorance may unite to impart to irredeemable paper money a temporary and fictitious currency; yet these accidents vanish when the frenzy of distrust and panic seizes the community; and opinion then finds no rest or footing until the unwelcome fact is accepted and confessed by all, that paper money has no value except what it will command in redemption. Over and over again in the history of society has the popular imagination, excited by charlatan empirics, persisted in ascribing theoretic and dreamy values to irredeemable paper currencies; but their names have become synonyms of the disappointment, disaster and misery which invariably attend the terrible collapses which befall them.

When, therefore, writers and politicians contend that there is a magic virtue in the stamp fixed upon irredeemable paper money—in the fiat of the issuer, if a Government—to make it intrinsically worth its nominal value in dollars and cents, they pass out of the domain of fact into the realm of fiction; and are as dangerous and difficult to be followed in their aerial lurings as the glimmering jack-o-lanterns of the swamps. It would be impossible to enter with them into any serious discussion of the qualities of an irredeemable currency; issued *as* irredeemable by

Government, as a measure of public policy. Nothing but supreme necessity has ever been held to justify the measure at all; and it is hard to conceive that the Government of so great a commercial country as the United States would so far offend the public opinion of nations, and violate those moral laws relating to pecuniary obligations which it requires its courts to enforce between citizens, as to put out thousands of millions of dollars of paper money, accompanied with the declaration to its people: "I will not redeem this currency, but it shall be your duty to receive it, and your privilege to pass it upon your neighbors, at the value expressed on its face."

If so mad a policy as this should be embarked upon without necessity, as a freely chosen measure of permanent public administration, then all debate must cease, the reason must sit dumb at the spectacle and withhold her counsels and admonitions until the frenzy of popular infatuation, the delusion which tolerated the wild scheme, shall have reached its collapse; or, like the evil spirit of the scriptures, shall have cried and rent its victim sore, and come out of him, and left him as one dead, insomuch that that many will say he is dead.

But I am very far from objecting to Government

paper money as such. Whether it is a more desirable sort of paper money when properly issued and secured than any other will be discussed in the sequel. What is now insisted upon is, that a greenback circulation, issued without limit of amount, and having no other quality of redemption than the forced circulation imparted by the attribute of being a legal tender between citizens, cannot be justified by reason, and must eventually prove worthless, and at some time disastrous to the character and material interests of the country. It is conceded that a government paper currency, issued in limited amount and made receivable in payment of public dues, would be irredeemable only to the extent that the amount issued should exceed the amount of money required for paying the revenue for which it is made receivable. But the revenues of the Federal Government amount only to some three hundred millions of dollars per annum, and these could be liquidated by less than half that amount of greenbacks. The receivability of the money for revenues would, therefore, be quite unavailing to give redeemability to the proposed two thousand millions of greenback money which the party of that name proposes shall be issued.

The proposition of that party is to issue govern-

ment paper in the form of money; to make it a legal-tender; to make it receivable in payment of dues to the Government; to make no provision for its redemption in gold and silver, the money of the world; and, by issuing these greenbacks to the full amount of the national debt, to convert into money bonds of the Government now held as an investment and having the character of fixed capital. Such money, so issued, would of necessity be irredeemable. It would have no currency or worth abroad. Exceeding in amount the needs of the country for currency, it would depreciate in value. Being cheaper than money of par value, it would drive all such money out of circulation. Being money which nobody would hold, it would excite a habit of universal speculation and competition, in which the farmer, the honest, the industrious, the poor, the ignorant, in short, all the non-speculators of the country, would be losers in the grand mob of gamblers, into which the community would be converted. I do not propose to confront with patient argument a scheme of finance so wild and speculative. The greenback craze comes of that temperament described by John Stuart Mill in his essay on liberty:

"We ought not to forget that there is one inces-

sant and ever-flowing current of human affairs towards the worse, consisting of all the follies, all the vices, all the negligences, indolences, and supineness of mankind, which is only controlled and kept from sweeping all before it by the exertions which some persons constantly, and others by fits, put forth in the direction of good and worthy objects."

It is in a fit of resistance to this flowing current of popular folly, that I write.

CHAPTER THIRD.

GOLD AND SILVER THE ONLY REAL MONEY—PAPER SHOULD BE USED ONLY AS THE REPRESENTATIVE OF TRUE MONEY.

BEFORE going farther with the discussion of money and currency, it is incumbent upon me to show cogently and conclusively that gold and silver are the only true money for general, and especially for international use. It is not denied that other substances have been employed as money in the primitive stages of society. It is not denied that in the absence of gold and silver society is under the necessity of providing substitutes for the precious metals. It is not denied that in the complex society of modern times paper is advantageously used, nay, is necessarily used, as the representative of money, to save the actual handling of gold and silver. But it can be readily shown that gold and silver are the only true, the only absolute money; that they alone are capable of maintaining their royal title against all pretenders; and that what-

ever other substances may, under peculiar circumstances, take their places, these can only do so in fealty to and as vice-regents of the true—may I not say the divinely ordained, monarchs of currency—gold and silver.

True it is, that under a law peculiar to money, a base currency will, if introduced into a community, temporarily drive a genuine money out of circulation; but this evil is one that sooner or later always cures itself. The base money comes to ruin and worthlessness in due time; and the genuine money reëstablishes itself more firmly and autocratically than ever.

Now, gold and silver did not jump into their position without sharp competition; but when once they had won it, they held it against all comers. They had to struggle in the origin against iron, copper, earthenware and painted wood; and later on against special local products—against glass in Austria, stamped leather in Russia, salt in Abyssinia, cocoanuts and seeds in Mexico, tobacco in Virginia, wampumpeag in New England, and cowry shells in Africa; but they beat and banished them all. The same necessities have produced everywhere the same results; gold and silver are adopted as the best media of circulation, because they really are

so. The reasons of this superiority become evident as soon as we consider what are the qualities required in money. Those qualities are—

1. The material of money must be susceptible of division into the smallest portions.

2. It must keep indefinitely without deterioration from rust, decay, cost of maintenance, or other cause.

3. It must be easy to transport in consequence of containing much value in small bulk.

4. All pieces representing the same value must be equal to each other by exact measurement not variable.

5. Its intrinsic worth must vary as little as possible.

6. It must be so acceptable to all nations that it will be extensively made legal-tender in the world.

7. It must be scarce, and not capable of cheap and indefinite production.

The union of all these qualities in the same substance is necessary to constitute a perfect money; and that union of qualities is found only in gold and silver.

It is, indeed, found in practice that while gold and silver are the only substances possessing the qualities just detailed, none other being claimed to

do so, yet that even these metals do not possess some of the requisite qualities in as high a degree as is required in some conditions of society. For instance:

The hundreds of millions of people who inhabit China, India, Cochin China, and the East Indian Isles employ a currency almost exclusively silver, because wages and prices among them are so low as to be incapable of expression or payment in gold coins, which, if coined for such purposes, would be too diminutive to be used in the affairs of Eastern life. Even silver is incapable of subdivision into the smallest values for which money is used in those regions, where wages are as low as fifty cents a week, and resort must be had to baser metals; as in China, for instance, where cheap brass coins, which are called cash, are so small that they have to be strung together through holes in the centre. Even in Europe and America gold is too valuable to be coined into pieces representing so small a value as a dollar, and it is necessary to use silver for the dollar and its fractions. Gold is too valuable, in other words, for the lesser dealings of the poor, and is only used in the larger dealings of the rich. Both metals are susceptible of infinite subdivision, but the small values of coin admit of use in practice only when they

are of silver or of the better class of the base metals. From these circumstances arose the necessity of making both the precious metals serve as money.

The most important of the requisites of a true money which are given above are the sixth and seventh. Of the sixth—namely, its adoption as legal tender by the several nations, this is obviously to be said: It is not enough that a substance shall have all the requisites of money, even when possessed in so high a degree as to render it acceptable as such to individuals everywhere. Because, so long as its acceptance depends upon the will of individuals it remains a commodity of commerce and is liable to fluctuate in value, under the operation of the law of supply and demand. In order to prevent such fluctuation it is necessary that Government shall fix its value and constitute it by law a legal tender in payment of all debts to itself, and from citizen to citizen. This action of Government with respect to gold and silver, accompanied by its assuming as a sovereign prerogative the work of coining and stamping the precious metals, in pieces convenient for use as money, is necessary to constituting as money even the precious metals. The further requisite needs only to be mentioned to be appreciated; namely, the material coined into money, and made

legal tender by one government, must be so perfectly adapted to the purpose that other nations shall be willing to make, and shall actually make it, by law, when coined, its legal-tender currency. It is not sufficient that even the substance best adapted to use as money shall be made legal tender by one nation. In order that it shall be true money, money in fact, money of the world, it is necessary that it shall be made legal tender by several great nations of the earth. We have seen in modern times how the demonetization of silver by Germany, and the recent cessation of its coinage in France, has demoralized its price.

But probably the most important of all the requisites of a true money is the seventh one which has been enumerated; namely, that it must be reasonably scarce and not capable of cheap and indefinite production. As long as there is a liability to an over-issue of any particular kind of money, however great may be the confidence with which it may be received for a time, yet when the fear becomes fixed that it is undergoing an excess of issue, that confidence is lost, and the money itself sooner or later perishes. Such is the case with paper money. This is true of the paper money of any one country among its own citizens. As an international

money it is worthless, for no nation can have confidence that the paper money of another nation will not be over-issued. The true banker who never over-issues is Nature; and her currency is gold and silver. Mr. Cernuschi wisely says:

"The true reason why gold and silver are good money is not so much because they are precious metals, as because the issue of them is not in the hands of government [or individuals]. When you have paper money you are never sure of the quantity of money [issued or] to be issued. A country may be improvident, and is liable to great danger in the issue of paper money. It may be at the mercy of a bad administration. The issue of gold and silver (on the contrary) is a natural and automatic issue which no one can control. It is independent of human agency, and it is for that reason that gold and silver are adopted [by all nations] as money; and thus the merit of metallic money is, that it is an international money. Yes; metallic money is issued by Nature; and, that being the fact, it can be an international money [which paper money cannot be]. Paper money, being issued by man, has this great defect, that it is only a [local] national money, which is incapable of being used abroad."

I would add the following sentences from the Pandects of Justinian, the great source of all sound modern laws (tenth book), which as here given are quoted from the great jurisconsult of the third century, Julius Paulus:

"The origin of buying and selling began in exchange. Formerly money was unknown, and there existed no terms to differentiate merchandise and price; but every one, according to the wants of the time and circumstances, exchanged things useless to him for things which were useful; for it happens frequently that one is in need of what another has in excess. But as it seldom coincided that what one possessed the other wanted; and conversely; a material was 'elected' [by government] whose legal and perpetual value remedied, by its homogeneity, the difficulties of barter. This material, being officially coined, circulates and holds its power, not so much from its substance as its quantity [and the fact that it has been 'elected' as money by government ;] after that, each of the two things exchanged is no longer called merchandise, but only one [of them is merchandise]; the other is called price."

Justinian thus utters a cardinal truth when he says that the power of money resides not so much

in the substance as in the quantity. Now, the quantity of gold and silver is precisely that which nature allows to be produced; never more, never less; and it is to be gathered from the history of the precious metals that that great and good banker Nature, deals them out to mankind; sometimes, it may seem capriciously, now too bountifully, and again too stingily; but on the whole, with admirable wisdom and kindness, managing that great means of beneficence to man as she manages the seasons, the frosts, the snows, the rains, and the sunshine—occasionally to his affliction, but, on the whole, for his prosperity and happiness.

I add another passage from Mr. Cernuschi:

" The legislature chooses the material which will be money. The legislator of England has exercised the right of making gold only money; the legislator of India has exercised the right of making silver only money; the legislator of France has exercised the right of making bi-metallic money; but when the choice is made the Government remains with folded hands, and has nothing to do with the quantity of money. There is this warrantee of the value of metallic money—that nobody has the control of the quantity. . . . A good and sound money is that money the coinage of which is

unlimited, unrestrained, except by nature. So that the value of bullion and the value of coin are always the same."

It will be interesting to read also the views of Mr. Seyd:

"Whether the existence or use of gold and silver, and their evident powerful factorship in human society, be ascribed to a divine plan or to some other metaphysical origin, it can at least be said that nature furnishes gold and silver as materials for money. And as far back as human history can be traced, and in spite of all quarrels of poets with gold and silver, in spite of all attempts to supplant them by something else, they have hitherto calmly maintained their superiority. Again, throughout the history of the development of human society, nature has, so to speak, issued these materials to mankind, partly in a moderate, regular way, partly by a more or less periodic and copious supply."

I think I am warranted by the history of the precious metals to take a still higher view of the authorship of their use as money by our race.

I am one of the least worthy of those millions of people, living on this earth, who believe that every indispensable thing which enters largely into use among mankind, was placed here for their use

by the same infinitely great and good Being who created the earth and them, who inspired man with the instinct and capacity of self-culture, and who has enabled him by the energy of this motive to raise himself to a condition of moral, intellectual, and physical development, wherein he is not infinitely beneath comparison with the angels themselves.

As a being endowed with this irrepressible and insatiate desire for mental, moral and physical improvement, who has been marvelously progressive in this order of development, man, whenever once attaining to civilization, is essentially and instinctively commercial in his relations to his fellow-men. So strong has this instinct for gain always been in him, that Lycurgus, in his day, desiring to restrain it and to confine the Lacedemonians to rural and agricultural pursuits, ordained iron as their money, making that alone the legal tender, well knowing that its cheapness and ponderousness, its liability to rust, and its certainty to fatigue and disgust its holders would overcome the commercial propensity in those people. And though the Holy Scriptures, warning men and nations against yielding unduly to this commercial passion, denounce the love of money, the passion itself, as the root of

all evil; yet, that the honest indulgence of the passion is not condemned by the author of our race appears from the fact that these Scriptures, in another place, encourage the employment of capital in just trade, by commending the man in the parable who made good use of his talents of gold, and denouncing him who had buried his own in the ground. Nor could there be more persuasive proof that his Creator favors that principle of man's life, the love of gain, which inspires him with so much energy and lifts him into such high development, than the fact that the people who were the chosen of God for hundreds of years, have ever been and still are precisely the people most noted all over the globe for their commercial propensities, habits, and talents.

It may be said with truth that civilized man is a commercial being, and that though he follow agriculture or other rural pursuits, or the mechanical trades; yet, even in these avocations he is more or less commercial in his methods, and is more or less imbued with that spirit of gain and desire for bettering his pecuniary condition, which pervades every enlightened society advanced in the arts and sciences and affluent in the wealth which attends them.

I need not say more in support of the truth, that

commerce is a necessity to, and a principal factor in producing the advanced civilization of the world; and that the chief occupation, I may say duty, of man, after his moral duties, is the improvement of his pecuniary condition. He who is content with the mere necessaries of life, and eschews the nicer food, the better raiment, the higher comforts, and the more refined and affluent life characteristic of advanced civilization, commands no esteem as a citizen, and is regarded as a silly eccentric or a natural barbarian.

A necessity of commerce is money of some sort. Commerce could not exist at all without money. With those ancient people who pursued agriculture, animals of the herd or flock—*pecus*—were used as money, and hence comes our present word for characterizing all pecuniary subjects and transactions. In Homer's day oxen were so used. In Russia leather and leather tokens were the money of the country for a long while. Among the savages of Africa and the aborigines of America the money is and was shells. Even the colonists of New England used wampum as money at times, because it was current with the Indians from whom they purchased pelts and other articles. In colonial Virginia the money was tobacco; in India, cakes

of tea. And so we might go all over the world and find that different communities in different regions have, at some time in their history, used different materials as money. But there is this leading fact which may be discovered from a close study of the history of these several kinds of money—namely: that each was the best material at the command of the community using it which it could then devise for the purpose of money. There is this other fact, equally without exception and equally as striking and conspicuous, that whenever any community at all advanced, even in the incipient stages of commerce, once obtained any supply of either of the two precious metals, they adopted them as money, and abandoned the special money which they had been using. There is this further fact, that no community of people ever emerged from the feeble condition of barbarism and squalid state of barbaric poverty, or attained to power among nations in war, or wealth, or intelligence, until they had secured a store of the precious metals and had employed them for a period as money. There is this additional fact taught by all the history of men and nations, that those communities which have been most largely possessed of the precious metals (until corrupted by the luxury too often attending them)

have been the most powerful, prosperous, enlightened and honored in history. And there is still this cumulative fact, that those ages of society in which the precious metals most abounded have been precisely those marked by the most rapid social advancement and the highest types of social progress, while those periods in which the precious metals were scarce or lost have been the "dark ages" of human history.

These great facts are as indisputable as significant, and I for one, in the light of their teaching, and in the spirit of a previous sentence of this chapter, am profoundly persuaded that the great and good Author of man and his civilization has placed the precious metals on the earth, within his reach, to serve as factors in aid of that commercial instinct which He planted in the breasts of men and nations as part of His plan for lifting the human race out of the feebleness and barbarism of primitive society to the grand and noble development to which it has attained, and to the still more exalted destiny He has in reserve for it. And I cannot help thinking, in respect to these precious metals, from time to time issued to man by Providence (the wisest and kindest of all bankers) in quantities meet for the purposes which It has had in view, that the men who have

sought to substitute their own methods and materials of currency for Jehovah's are of the type of those builders of Babel, who sought to scale Heaven by erecting a tower of bricks; or like Naaman, captain of the Syrian host, the mighty man of war, but a leper, who rejecting the indication of the prophet, said, in his pride of heart; Are not Abana and Pharpa, rivers of Damascus, better than all the waters of Israel?

CHAPTER FOURTH.

A CIRCULATION OF GOLD AND SILVER AND A PAPER CURRENCY REDEEMABLE IN COIN INSURE PROSPERITY AND ARE ATTAINABLE IN THE UNITED STATES.

A FREE circulation of gold and silver money seems to be an inseparable attendant of general prosperity and thrift in any country.

In the history of finance is discoverable this remarkable fact: that the prosperity promoted by an increase in the supplies of gold and silver is substantial, permanent, and followed by no collapse; while that resulting from an increase of an irredeemable circulation is invariably followed by reverses greater in degree than the prosperity of which they are the sequel.

Mr. Hume, in one of his essays on commerce, makes the following observations:

"It is certain that, since the discovery of the mines in America, industry has increased in all the nations of Europe, except in the possessors of those

mines; and this may be justly ascribed, amongst other measures, to the increase of gold and silver. Accordingly we find that, in every kingdom into which money begins to flow with greater abundance than formerly everything takes a new face, labor and industry gain life, the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plough with greater alacrity and attention. This is not easily to be accounted for, if we consider only the influence which a greater abundance of coin has in the kingdom itself by heightening the price of commodities and obliging every one to pay a greater number of these little yellow and white pieces for everything he purchases. . . . Though the higher price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase, but some time is required before the money circulates through the whole State, and makes its effect to be felt on all ranks of people."

Sir Archibald Alison, in his history of Europe, ascribes a remarkable influence to the increase or decrease of the supplies of the precious metals. He says:

"The two greatest events which have occurred

in the history of mankind have been directly brought about by a successive contraction and expansion of the circulating medium of society. The fall of the Roman Empire, so long ascribed in ignorance to slavery, heathenism and moral corruption, was in reality brought about by a decline in the silver and gold mines of Spain and Greece. . . And, as if Providence had intended to reveal in the clearest manner the influence of this mighty agent on human affairs, the resurrection of mankind from the ruin which those causes had produced was owing to the directly opposite set of agencies being put in operation. Columbus led the way in the career of renovation; when he spread his sails across the Atlantic he bore mankind and its fortunes in his bark. . . . The annual supply of the precious metals for the use of the globe was tripled; before a century had expired, the prices of every species of produce were quadrupled. The weight of debt and taxes insensibly wore off under the influence of that prodigious increase; in the renovation of industry, the relations of society were changed; the weight of feudalism cast off; the rights of man established. Among the many concurring causes which conspired to bring about this mighty consummation, the most important, though hitherto

the least observed, was the discovery of Mexico and Peru. . .

"If the circulating medium of the globe had remained stationary, or declining, as it was from 1815 to 1849, from the effects of South American revolution and English legislation, the necessary result must have been that it would have become altogether inadequate to the wants of man; and not only would industry have been everywhere cramped, but the price of produce would have universally and constantly fallen. Money would every day have become more valuable—all other articles, measured in money, less so; debt and taxes would have been constantly increasing in weight and oppression; the fate which crushed Rome in ancient, and has all but crushed Great Britain in modern times, would have been that of the whole family of mankind.

"All these evils have been entirely obviated, and the opposite set of blessings introduced, by the opening of the great reserve treasures of nature in California and Australia. . . . Before half a century has elapsed the prices of every article will be tripled, enterprise proportionally encouraged, industry vivified, debts and taxes lessened."

The reason why there is no collapse after a season of high prosperity caused by an influx of gold

and silver, is that a metallic currency never explodes and falls to nothing as do inflated currencies of paper. If lost by a country, the prosperity is lost gradually and by imperceptible stages.

The most prosperous country in the world is France, where they have an abundant currency of gold and silver. The paper issues of the Bank of France, the only bank from which issues are allowed, are only in the proportion of one dollar in paper to two in metallic coin. No other nation but the French would have been able to pay such an indemnity as that which Germany exacted after the war of 1870. A thousand millions of dollars in gold or gold drafts were paid at very brief intervals of time without the least disturbance of the financial equilibrium of the Republic. It was, at the call of the Government, promptly subscribed by all classes of citizens in specie or specie funds. The Government was under no necessity of compelling contributions by issuing a mass of legal tender treasury notes, having the *cours forcé*. Nor was there an extraordinary issue of paper money through the instrumentality of the Bank of France. The French bore the cost of their own army and paid off the enormous indemnity to Germany without a resort to paper issues of any kind. The experience of the *assignats* and *mandats* of the

Revolution was held in shuddering remembrance, and was avoided with patriotic abhorrence. And this day, after as costly a war as our own civil conflict, France presents the spectacle of a more solid prosperity, individual and collective, private and public, than any other country. The phenomenon is due to the fact that she stood in her day of trial and humiliation firmly and courageously upon a metallic currency.

Shall we, without any great necessity overwhelming and coercing us, in a period of peace and plenty, possessing unexampled wealth, in a country plethoric in material resources, producing gold and silver as leading staples, holding a monopoly of cotton, tobacco and petroleum as exports, shall this country, the granary of the world, deliberately discard the better money and choose the worse instead?

I do not contend for an exclusive metallic currency. Modern intelligence would be insulted by the pretension that gold and silver coins constitute the only species of money suitable to the wants of society in its present state of advancement. I contend only that such paper money as shall be used shall be convertible into gold and silver; that the paper currency shall be so lashed to the metallic as to be absolutely regulated by it in value. The car-

dinal desideratum is redeemability. The crucial test of a paper money that shall not poison the sources of our country's prosperity is an unvarying equivalency with the money of the world.

Why is this an essential test? Wherefore the necessity of redeemability in silver and gold? One of the numerous reasons is, that our country is too great, and its vast commerce too ramified among foreign nations and regions to allow of the use of a special currency. But another controlling reason is, that thereby only can its volume be saved from the fluctuations incident to paper currencies. The principal evil of paper money is its liability to extreme fluctuations in quantity, and thereby also in value. Better a base currency than a fluctuating one. Better a depreciating currency (causing a rise of prices), than one rising in value. It is the fall of the prices of property (that is to say the rise of the value of money by contraction), which causes ruin and misery; and we cannot have a season of inflation in paper money without its counterpart and sequel of contraction. In the whole history of the human race not a single instance can be cited of a fall in the value of money (rise of general prices) which has not proved a benefaction to mankind; while, on the other hand, during every period when a rise of

the value of money (fall of general prices) has occurred, it has been attended by financial, industrial, political, and social disaster. An increasing value of money (fall in prices) has been more fruitful of human misery than war, pestilence and famine. This country is now suffering the evil of a contraction resulting from a previous inflation—a fluctuation in paper money. Lash our paper currency in its qualities as money to the money of the world, and it can undergo no fluctuations of value other than are incident to the precious metals, whose quantities cannot be raised, and whose value undergoes no perceptible change except in long periods of time.

The usual means employed for preventing fluctuations in the issues of paper money is that of severely limiting the amounts put out. But so great has the power of combined capital become that this expedient can easily be neutralized. Paper issues have at best but a local circulation; in our country the area may be very large, but still that area is limited to the North American continent. Necessarily are large amounts of the circulation collected in the money centres, where it is susceptible of control by powerful combinations of capital. It does not follow that the amount of paper currency put

out from the issuing sources remains in actual circulation; for capitalists have been known by combination to engross hundreds of millions of the money of this country at one time. Our greenback and national bank circulation may be outstanding to the amount of seven hundred millions of dollars, and there may be in the statistical statements no apparent contraction; yet hundreds of millions of dollars thus put out may be locked up by bankers and wreckers from the reach of trade. It was stated that in New York city alone one hundred and forty millions of the currency was thus locked up for a few days in September, 1873. How much more disappeared in Boston, Philadelphia, and other money centres, the public will never be allowed to know.

This is what was reported of the means of forcing a contraction adopted in New York in 1873. This sort of contraction, and every other sort of undue contraction is paralysis to the enterprise and confiscation to the property of the country.

By these and other means familiar to Wall street, the volume of currency in circulation, instead of being some seven hundred millions of dollars, as indicated by official reports, may in fact be reduced below five hundred mi lions.

If gold and silver be driven out of the country by

an irredeemable paper currency, so that only a hundred millions or so of coin remain, it is plain that the same operation could be put in execution in respect to the metals, with like disastrous results to the public. The gold panic of the Black Friday of September, 1869, in New York, shows what may happen from such combinations.

The Greenback party could scarcely expect to get into circulation more than two thousand millions of paper; an amount which would be ruinous to all values, including its own. But even then we should be liable to their *bête noire*, contraction. For, the feat would be accomplished at the expense of driving into utter banishment and seclusion the metallic coins; and thus opening a fair field for the cornering operations of the gambling class of capitalists—now grown into a powerful guild—who are as audacious as opulent. Who can say that, with specie banished, the enterprise of these powerful and ingenious operators would not rise to the height of the great feat of watching a favorable condition of the market, suddenly concealing a few hundred millions of the inflated currency that was circulating in great money centres, creating three or four days of crisis, and thereby producing countless bankruptcies attended by the widest panic and dis-

trust, only to astonish the public after their object was accomplished, by a deluge of the lost-and-found paper? With an irredeemable currency which everybody is willing to dispose of, which can be borrowed for the mere asking, in any amounts, for any purpose, it is easy to conceive what havoc might be effected in a few days while countless amounts of business payments were falling due, by the sudden engrossing of one or two hundred millions of the paper currency circulating in the chief money centres of the country. Rid of the presence of the precious metals, which shall have been driven out by irredeemable paper money, and which if present would be too costly to engross, barricaded as it were from the outside world, combined capital, tired of the plethora of paper money in our financially isolated country, might on some chosen occasion produce a local contraction, a crisis, a panic, and a state of disgust and distrust that would be fatal to the popularity of paper money ever afterwards.

But whether effected in this precise manner or any other, or by whatever methods or causes, all experience with paper money shows that it is subject to extreme and violent fluctuations. These may be artificially produced, or they may be the result of overtrading or undertrading. It is certain that

they are of continual and habitual occurrence, and it is these fluctuations in the quantity, and thereby in the value of irredeemable paper money, that produce the greatest injury to country and people.

But suppose our paper money were issued in the limited quantities and with the wise precautions necessary to secure to it fixed par relations with gold and silver. It would circulate side by side with the metallic coins, and being equivalent to, and interchangeable with, the money of the world, it would virtually form part of the great volume of world's money, and fluctuate in value only as that money fluctuates, the aggregate amount of which is too vast to admit of any sudden or perceptible increase or decrease.

Mr. Ricardo thus states the principle by which it would then be regulated:

"So long as the currency of any particular country consists exclusively of gold and silver coins, or of paper immediately convertible into such coins, its value can neither rise above nor fall below the value of the metallic currencies of other countries by a greater sum than will suffice to defray the expense of importing foreign coin or bullion, if the currency be deficient in volume, or of exporting a portion of the existing supply, if it be redundant."

Statisticians teach us that the amount of gold and silver in the world, available for use as money, is more than ten thousand millions of dollars; and that there is also paper money redeemable in and equivalent to gold and silver to the amount of more than two thousand millions. Here is, therefore, so to speak, an ocean of money too vast in volume to admit of sensible fluctuations in quantity or value, except in long periods of time. Its volume, compared with that of any possible issue of local, irredeemable paper money in any country, is as the great sea to the river, and its fluctuations as imperceptible as changes in the ocean level, compared with the freshets and droughts of mountain streams, which typify the ever-recurring inflations and contractions of an irredeemable paper money.*

This ocean of world's money ebbs and flows as it were in the bays and inlets of each country, according to the condition of its trade with other countries, like water filling up temporary vacuums, or sinking away from places of temporary redundance; the only condition necessary to its accommodating itself in supply to the wants of every community

* See Chapter Tenth of this volume, where this subject is enlarged upon.

being that that community's trade with the world shall be reasonably free.

The annual production of gold and silver does not, even at the present rate, exceed the annual loss by abrasion and use in the arts, so that the quantity of the two metals in existence is, practically speaking (though not absolutely), as invariable and their value as steady as the mean ocean level. A paper money equalized in value to silver and gold, lashed to and fused with the great world's stock of money—twelve thousand millions in quantum—is deprived of the power to fluctuate, is gauged to an unvarying standard, and shorn of those harm-working qualities which attach to fluctuating irredeemable paper currencies.

I know that the upholders of the Greenback platform everywhere resolve and protest that the paper money which they propose shall be judiciously issued. A recent political convention in Lynchburg, Virginia, codiciled this protestation by a demand for notes of circulation to be issued by State banks; which would of necessity be based on any wild-cat securities which any repudiating Legislature of the East, or inflationist Legislature of the West might see fit, in its local wisdom, to require. Such a plank would be rejected with scoffs and derision

by any national Greenback convention to which it should be offered; for if the advocates of greenbacks are determined to crush out the competition of notes subject to the severe restrictions and wholesome penalties which are applied by law to the national bank circulation, they would not brook the thought of allowing an inundation of State bank notes that would prove as fatal to their policy as the grasshoppers of the prairies to the farm crops of Kansas. I only mention the proposition here, because it admirably interprets the meaning of the Lynchburg Convention's word, judicious. A judicious issuing of two thousand millions of irredeemable greenback paper, supplemented with as many State bank notes as may suit the temperament of our much-wilder Virginia financiers, makes of that excellent adjective a very topsy-turvy word. The greenback inebriates can no more measure out their issues of irredeemable paper judiciously than less respectable inebriates, fully charged and inflated, can so direct their steps. How often do we see a fine fellow, with a quart or two of bricks in his hat, walking with wonderfully judicious steps along the pavement. At the same time a man of business may be seen, with hurried and careless strides and thoughtful visage, moving rapidly past,

eagerly bent on the work of the day. It is needless to indicate whether the judicious steps or the careless strides end speedily in the gutter.

If the conditions under which paper money is issued be proper, we may discard all consideration whether the country shall have it by the glass or the pint; on tick or for pay down. On the other hand, if all the distilleries of production be worked to their highest capacity and the greatest quantity of the article that every body could desire is made and put in bond, it will surely get out, despite the most judicious thought and pains—How not to let it out.

Our present paper circulation is already virtually at par with gold. It is at a premium over silver. If we maintain it at that value, gold and silver will come into the country from abroad, and those quantities which are mined and coined in the United States will remain here until the volume of circulation reaches its proper level. If we, on the other hand, should debase the paper circulation, then, under the operation of that invariable law of currency by which a baser money expels a purer, we should obtain no specie from abroad and should retain little specie of American production.

The reader will be struck with the disparity be-

tween the specie held in this country and our paper circulation, compared with the state of things in leading European countries. In Germany they had in 1876 seven hundred and fifty millions of dollars of specie to two hundred millions of paper, or nearly four dollars to one. In France they had a thousand millions of dollars in specie to four hundred and ninety-five in paper, or more than two to one. In England they had five hundred and twenty millions of dollars in specie to two hundred and thirty-five millions in paper, or more than two to one. But in the United States, we had on the first of December, 1877, six hundred and seventy millions of dollars of paper to one hundred and seventy-five millions in specie, or only about one dollar in specie to nearly four in paper. If the rest of the world are not fearfully mistaken in estimating a specie currency as more desirable than paper, our country is in an unenviable condition in the enormous preponderance which it has given to paper money. We have now the choice (for choice we indeed have, after sixteen years of slavery to depreciated paper,) between that money, on the one hand, which the experience of all nations and all ages teaches us commands prosperity, riches, and rapid material development for every country which holds it in

honor; or, on the other hand, an irredeemable paper money, which the same experience teaches elevates for a while, like the potations of the inebriate, into deliriums of speculation and extravagance, only to cast down again into the nether depths of distress and poverty.

Our foreign commerce is in a condition highly favorable for placing the country on a basis of sound money, equivalent to gold and silver, and circulating in an amount to bring ease to debtors and success to all classes of business.

During the eleven years terminating with the financial revulsion of 1873 our foreign trade exhibited an average yearly excess in the value of imports over exports of nearly $100,000,000. The imports during the first three years of this period, being the last three of the war, averaged about $266,000,000, and the exports $188,000,000; in the first three years of peace, $396,060,000 to $309,000,000; and in the five years from 1869 to 1873, inclusive, $528,000,000, to $417,000,000.

During the five years just terminated, however, a marked change has occurred in the volume and order of imports as compared with the exports, the average yearly value of the former declining to $490,000,000, while the exports advanced to over

$587,000,000, as is more fully shown by the following statement:

Fiscal year.	*Imports.*	*Exports.*
1874	$567,406,342	$586,283,040
1875	533,005,436	513,442,711
1876	460,741,190	540,384,671
1877	451,323,126	602,475,220
1878	437,051,533	694,884,200
Total 5 yrs	$2,449,527,627	$2,937,469,842
Yearly aver	489,905,525	587,493,968

	Excess of Exports.	*Excess of Imports.*
1874	$18,876,698	....
1875	....	$19,562,725
1876	79,643,481	....
1877	151,152,094	....
1878	257,832,667	....
Total 5 yrs	$487,942,215	....
Yearly aver	97,588,443	....

The condition of things which had existed for a series of years before the revulsion of 1873 has been reversed in the five years which have followed that event; for, whereas the country then imported nearly a hundred millions of dollars' worth of goods a year more than it exported, it has since then exported nearly a hundred million of dollars' worth of produce more than it imported and last year two hundred millions. It is this condition of our foreign trade more than any other cause that has brought

our paper circulation to a par with gold. There is no reason for believing that this condition of foreign trade will not continue; and there is no room for rational doubt either that we shall be able if we choose to maintain our paper permanently at par value; or that, if we prefer to do so, by refraining from an issue of irredeemable paper we shall see the entire vacuum now existing in our currency, to the amount of two hundred millions of dollars filled by gold and silver, either coming in from abroad, or remaining with us from the product of our own mines. Let it be recollected that the present annual product of gold in the United States is at least $40,000,000, while that of silver is $35,000,000, making a total per annum of $75,000,000.

It is plain, therefore, that to the American people is now presented a choice rarely offered to any country—the free choice whether their money shall be equal to gold and silver, or be depreciated paper of the sort which they have been obliged to use, at the cost of incalculable loss and distress, since 1861.

It strikes me as one of the strangest anomalies ever presented in the history of enlightened nations, that at the very time when we should naturally

expect to witness a glad, determined, and confident popular demand for metallic money; at the very time when such a currency is obtainable in the most desirable abundance, there should be or seem to be an eager desire on the part of a class claiming to possess an extensive political organization, for a further freshet of irredeemable paper money.

We are to have an increase in our circulating medium, that is inevitable; why should we choose the baser money when we may have a better by a mere act of volition? The revival of prosperity coming from an increase of currency we are sure of; why should we not make choice of a money whose handmaids are wealth and prosperity, permanent and real, rather than of a money which may for a time exalt, inflame, intoxicate, only in the end to cast down, impoverish, and degrade?

CHAPTER FIFTH.

TWO METHODS OF ISSUING PAPER MONEY—THE BANKING METHOD AND THE "CURRENCY" METHOD.

MONEY is the measure of values; but, unlike the measures of length, quantity and weight, it is itself a commodity of the market, varying in value with the demand and supply. In this fact is lodged the great trouble of paper money. There may be a much greater or less number of yard-sticks in a community than are needed for measuring lengths; and yet the yard unit will remain the same. The yard-sticks, again, may be of gold studded with diamonds, or may be of the cheapest material, and yet the yard length will continue inexorably the same. The like is true of the measures of quantity and weight.

But we all know that the case is different with paper money. If there be too much of it in circulation it becomes cheaper, and more of it is required to buy a given article than if the right quantity of it were in circulation. The fact can-

not be demonstrated mathematically, but experience teaches the truth substantially to be that a certain quantity only of money is required by the needs of a country's business; and that if this quantity be increased, all other commodities, if compared with money, become apparently dearer; while if the quantity of money be decreased, all other commodities become relatively to it cheaper. It is also substantially true, that this relative increase or decrease of prices varies in the ratio in which the amount of money in circulation is increased or decreased. Many special influences, indeed, operating irregularly upon the prices of different articles, modify the general truth stated; but it may safely be said, that if all other things remain the same, and if in a country whose business operations require one thousand millions of dollars of currency, the amount be increased to two thousand millions, then prices will be approximately doubled, and *vice versa;* the real values of other commodities, compared with each other, remaining, however, the same. Fluctuations in the amount of the money circulation of a country, therefore, produce great derangements in trade; cause immense losses to the classes who give little attention to them; and bring only moderate permanent

gain even to the few who study and speculate upon them.

Nothing, therefore, can be more important to a country than to make the aggregate amount of its circulating money as unchanging as possible; and it is far better that this aggregate should be somewhat larger or smaller than the true amount than that it should be fluctuating. This amount should have an elasticity only sufficient to allow it to accommodate itself to the variations of the demand for money in the different seasons of the same year.

What the quantity of money ought to be in any particular country, all writers agree cannot, owing to the ever varying transactions of each community, be accurately ascertained. The fact quickly shows itself if the amount is materially inflated; and is painfully felt whenever it is unduly contracted; but, like the great tide of the sea, no one can set a mark in any day, or month, or year, and say the volume of currency should not transcend it or recede from it. Measures are indeed necessary for preventing violent aberrations from the normal amount of money needed, acting as the balance-wheel in a complex system of machinery; but it would be vain to attempt satisfactorily to find

its amount, or to trammel its more moderate fluctuations.

After Hamilton and Jefferson, Mr. Calhoun probably gave more attentive study to the question of money in this country than any other of our statesmen. Speaking on the amount of circulating money required, he said:

"The currency of a country is to the community what blood is to the human system. It constitutes a small part, but it circulates through every portion, and is indispensable to all the functions of life. . . What that proportion is has not been, and perhaps cannot be accurately ascertained, as it is probably subject to considerable variations. It is, however, probably between twenty-five and thirty-five to one of the aggregate capital of the community. I shall assume it to be thirty to one." Vol. III. of Works, page 115.

If thirty to one be the approximate ratio between a country's aggregate property and its circulation, then twelve hundred millions of dollars would not be an inflated amount of currency for the United States. The census of 1870 gives the property of the Union at thirty thousand millions of dollars (30,068,518,507). This was nearly double what it had been in 1860. So that we may safely

estimate the value of all property for 1878 at thirty-six thousand millions.* At the rate of thirty to one, this would call for a circulation of twelve hundred millions of dollars for the United States.

I have explained why the bank deposits, the checks and the drafts employed in commercial countries to obviate the handling of money, are not money. They are not classed as money by financial writers of other countries, and should not be so classed by American writers, except to a very partial extent for large cities.

Mr. Calhoun's theory as to the manner of computing the amount of money which should circulate in a country was derived from the statistics of the world then accessible. I will refer to a few much later statistics, and shall give the population and the amount of the money circulation in three leading European nations, as follows:

GERMANY IN 1876.

Population	41,000,000
Gold and silver in 1876	$750,000,000
Paper money in 1876	200,000,000
Total money in 1876	$950,000,000
Dollars for each person, 23.	

* In fact I have no doubt it is nearer forty-six thousand millions.

FRANCE IN 1876.

Population	36,000,000
Gold and silver in 1876	$1,000,000,000
Paper money in 1876	$495,000,000
Total money	$1,495,000,000

Dollars per head, 42.

GREAT BRITAIN AND IRELAND IN 1876.

Population	32,000,000
Gold and silver in 1876	$520,000,000
Paper money in 1876	$235,000,000
Total money	$755,000,000

Dollars per head, 19.

UNITED STATES IN 1877.

Population in 1877	40,000,000
Gold and silver December, 1877	$175,000,000
Greenbacks and bank notes December, 1877	$670,559,887
Total money	$845,559,887

Dollars per head, 21.

It will be recollected that the population and business of Great Britain are more condensed and concentrated in cities than in any of the other countries; and that this circumstance enables the trade of that country to be carried on by the banking devices used as substitutes for money to a far greater extent than in either of the other countries named. And it results from this fact that the quantity of money needed and used in that kingdom is less than is necessary in any other country.

But such is not the case with the United States, whose population is spread over a vast region, and whose need for money, whether in proportion to its property or its population, is far greater than in Great Britain.

If we take the four countries of which the statistics of circulation have been given above, and strike an average between their several circulations per capita, we shall find the mean rate per head to be $26. This ratio would give an aggregate circulation for the United States of ten hundred and forty millions of dollars (1,040,000,000), whereas our actual circulation on the first of December 1877, was only $845,559,887, as follows:

Greenback notes	$351,340,288
National Bank notes	319,219,599
Gold and silver	175,000,000
Total	$845,559,887

Not only do the statistics of this country, compared with those of other leading countries, thus seem to show that our circulation has been too much contracted, but the rate of interest charged by bankers on money indicates the same fact. Abroad interest on money very rarely reaches six per cent. per annum in any instance. When money cir-

culates in this country in the amount fairly required by its business operations, the rate of interest does not exceed the highest figure which the average legitimate business of the country can afford to pay; say six per cent. The very fact that twelve per cent is habitually charged in the interior, and eight to ten per cent in the cities, is persuasive proof that the quantity of money in circulation is too small, and ought to be increased.*

While, therefore, careful students of the subject revolt at the proposition of the Greenback party to issue enormous quantities of greenback paper, say two thousand millions, they are very far from opposing a proper increase of the circulation *when* and *as* called for by the wants of the business of the country. The amount which the medium rate of $26 per head would give, would be $1,040,000,000.

We come, therefore, to the important question

* I know that the following official statements are relied upon to prove that there has been no contraction of the currency; and I admit that there has been no statistical contraction. But statistical tables do not show where money is. It may be hid away, by other methods and action than by the issuing government and banks. The statistics only show what money had passed from the issuing sources. They do not show the actual whereabouts of the money, which may be hoarded, or engrossed, or "cornered," or lying idle, to the extent of hundreds of millions of dollars. The following are the official statistics of the subject:

of the manner of putting out a circulation. In our case, the Government is pledged against issuing a greater amount of legal tender notes (greenbacks) than $400,000,000. Existing laws authorize only $382,000,000; and we have seen there was actually

Statement completed from a publication of the United States treasury made in September, 1878, of the money of all kinds in circulation in the United States on the 1st of July of each year since 1859, to the present time:

	Bank Notes.	Legal Tender.	Total Paper.	Gold Value.
1860	207,102,477	....	207,102,477	207,102,477
1861	202,005,767	....	202,005,767	202,005,767
1862	183,702,079	96,620,000	333,452,079	288,769,500
1863	238,677,218	297,767,114	649,867,283	497,798,339
1864	210,392,987	431,178,671	833,708,903	322,609,247
1865	289,057,498	432,687,966	983,318,686	692,256,355
1866	301,476,071	400,619,206	891,504,686	588,657,093
1867	303,109,491	371,783,597	826,927,154	592,906,769
1868	302,926,626	356,000,000	720,412,603	505,009,235
1869	302,488,498	356,000,000	693,946,057	510,050,352
1870	301,989,777	356,000,000	700,375,899	599,521,770
1871	320,229,299	356,000,000	717,876,751	638,909,418
1872	339,365,730	357,500,000	738,560,904	646,249,541
1873	348,561,531	356,000,000	579,062,369	648,053,887
1874	352,990,053	382,000,000	780,490,916	711,156,734
1875	355,194,852	375,771,580	773,646,729	674,619,947
1876	332,657,274	369,772,204	738,376,536	660,847,000
1877	317,577,483	359,764,332	698,194,270	661,189,974
1878	324,940,788	346,684,016	688,597,575	684,465,692

The table of bank notes embraces the notes of State banks as well as National banks. The amount of legal tender notes proper is given for each year; and also the amount of currency of all kinds, including the legal tender notes, the bank notes of both kinds, the two-year notes of 1863, the compound interest notes of 1863 and 1864, the old demand notes and the fractional currency.

in circulation at the end of 1877 only $351,000,000. Under existing laws there is no limit to the amount of National Bank notes which may be issued, on a proper pledge of Government bonds. The original national banking law authorized a national banking circulation of $300,000,000. The act of 12th July, 1870, increased this maximum by $44,000,000. The act of 20th June, 1874, established free banking for all who would buy bonds and organize under the law.

Thus is the anomaly presented, of a party whose principal demand is for an increase of the currency, recommending the increase to be made in that form

It is proper to notice here a fraudulent error as to the currency, as money, of the seven-thirty notes, which were put out during the latter period of the civil war. These did not form, or enter into as part of the general currency of the country; only the smaller denominations could do so. They were issued to the amounts and in the denominations shown as follows:

890,198	fifty dollar notes	$44,509,900
1,376,346	one hundred dollar notes	137,634,600
456,002	five " " "	228,001,000
370,372	one thousand " "	370,372,000
9,895	five " " "	49,475,000
3,102,813	of all notes	829,992,500

Obviously, none but the notes of fifty dollars could maintain any great currency. The larger notes may have changed hands occasionally, but the change of hands must have been too seldom to allow the notes to be classed as a circulating medium. To assume that fifty millions of these seven-thirty notes entered into the volume of the currency, would be a liberal estimate.

in which there would be a violation of the plighted faith of the nation, and opposing the increase in that form which is freely allowed by the laws of the land.

There are in practice but two methods of issuing paper currency; one, by paying it out without accompanying the payment with a provision for its return, which is the method of paper issues by Government; and the other, by paying it out in loans, the refunding of the loans when due providing a necessity for the return of the paper, and keeping up its value, which is the banking method.

England maintained her stupendous and protracted struggle with Napoleon the Great without issuing any considerable amount of treasury notes.

The currency of England which circulated throughout the long period of suspension from 1797 to 1819 was issued and maintained in circulation through the agency of the Bank of England and some other banking institutions. There was some depreciation of paper money and some inflation of prices, but when we contemplate in the light of our own experience the smallness of that depreciation compared with that which characterized our own currency for ten years, it is impossible not to conclude that there was something in the manner

of issuing and maintaining the English circulation which prevented its depreciation. The principle on which it was issued and kept outstanding was that of maintaining an equilibrium between the outgo and the return of the money; between the efflux and the reflux of the currency.

It was put out by the banks in loans on thirty, sixty and ninety days paper; so that whatever amount of notes were thus loaned, there would be at the time when the loans matured for payment a corresponding demand for bank notes which had been issued in discounting the paper.

Our own war of 1812 was conducted throughout, for more than three years without an issue, to any extent, of Treasury notes. The Government obtained the money for carrying on the war from the banks. The vivid recollection in which the men of 1812 held the horrors of the Government currency issued during the Revolutionary War made them revolt at the thought of repeating the expedient. Mr. Calhoun describes the state of things which occurred during the war of 1812 in his speech on the sub-treasury. (Works, vol. III., p. 110 and 111.) Speaking of the suspension of the banks, caused by the declaration of war with England in 1812, he said, in October, 1837:

"I shall never forget the sensation which the suspension, and the certain anticipation of the prostration of the currency of the country, as a consequence, excited in my mind. We could resort to no tender act; we had no great central regulating power, like the Bank of England; and the credit and resources of the Government were comparatively small. Under such circumstances I looked forward to a sudden and great depreciation of bank notes, and that they would fall speedily as low as the old continental money. Guess my surprise when I saw them sustain their credit with scarcely any depreciation, for a time, from the shock. I distinctly recollect when I first asked myself the question, What was the cause? and which directed my inquiry into the extraordinary phenomenon. I soon saw that the system contained within itself a self-sustaining power; that there was between the banks and the community, mutually, the relation of debtor and creditor—there being at all times something more due to the banks from the community than from the latter to the former. I saw in this reciprocal relation of debt and credit, that the demand of the banks on the community was greater than the amount of their notes in circulation could meet; and that, consequently, so long as their

debtors were solvent, and bound to pay at short periods, their notes could not fail to be at or near a par with gold and silver. I also saw, that as their debtors were principally the merchants, they would take bank notes to meet their bank debts, and that which the merchants and the Government, who are the great money-dealers, take, the rest of the community will also take. Seeing all this, I clearly perceived that self-sustaining principle which poised the system, self-balanced, like some celestial body, moving with scarcely a deviation from its path, from the concussion it had received."

Our country adopted the English method of issuing paper money in 1812. It returned to the American system in 1862. Mr. Fullarton, one of the ablest of the English financial writers, in his invaluable work "On the Regulation of Currencies," has the following interesting remarks, wonderfully apposite to our case, on the two methods of issuing paper currencies:

"The case which I have supposed is precisely that of every Government which attempts to defray the national expenditure by a compulsory issue of inconvertible paper. The paper so issued is exchanged in the purchase of naval and military stores, in building ships, in constructing edifices, and

in the payment of services performed to the State, and no precaution is usually taken to ensure its ever being returned again into the exchequer. In the case of the Bank of England, on the other hand, the reflux of the notes was at no period interrupted. Perfect convertibility is no doubt one essential condition of every sound and efficient system of currency. It is the only effectual protection against internal discredit, and the best preventive of any violent aberrations of the exchange with foreign countries. But it is not so much by convertibility into gold as by the regularity of the reflux that in the course of things any redundance of the bank-note issues is rendered impossible. . . . It is the reflux that is the great regulating principle of the internal currency, and it was by the preservation of the reflux, throughout all the perils and temptations of the period of the restriction, that the monetary system of these kingdoms was saved from the utter wreck and degradation which overwhelmed every paper-issuing state on the continent, and which, in all human probability, must have been likewise our fate had our currency at that epoch been administered by a Government Board instead of by the Bank of England. I have adverted in a former paper to the deep debt which the

nation owes to the bank for its services through that long and trying crisis. I believe they cannot be too highly appreciated; and I believe, further, that the same services could not have been so beneficially performed by any new bank of the State, or by any body whatever less intimately bound up in all its interests and relations with the commercial affairs and prosperity of the country. That will be an evil day for England when the supreme executive authority of this country shall take the administration of a credit circulation into its own hands. I trust never to see it; and I hold the sort of levity with which the possibility of such an arrangement has sometimes of late been alluded to, and even hinted in the way of menace to the Bank of England, to be one of the worst indications of the existing state of public opinion on these all-important concerns."

From what has been said, it appears that there are two methods of putting out paper money—the banking method and the inflation method. The banking method is this:

If, for example, a bank has a hundred thousand dollars of its circulation to lend, and lends it on negotiable paper due at sixty, ninety, and a hundred and twenty days, the demand that will arise for its

notes for the purpose of paying off the negotiable paper at maturity will be just equal to the supply which was put in circulation; and, if the debtors to the bank are solvent, there will and can be no depreciation of this circulation. In respect to this hundred thousand dollars of bank circulation, what the British writers call the efflux and reflux of currency will be equal to each other, and there can be no depreciation. Not only is there an equilibrium in the case supposed between the efflux and reflux, but the reflux is required to come back at early, fixed and certain periods. A currency thus issued may vary in volume with the requirements of business without suffering depreciation even from an excessive increase in volume. A currency issued in strict obedience to this law of equilibrium would be infinitely more stable in value than a currency put out and taken in by the Government upon "inconvertible bonds." So much for the banking method of issuing a circulation.

If, on the other hand, the Government, along side of the currency issued as just described, should come into the vicinity of the bank which issued it, and with its own paper notes should buy up at double prices property in that community to the amount of a hundred thousand dollars, there would

be put in circulation notes of both kinds to the amount of two hundred thousand dollars, while there would be a counter demand, for withdrawal from circulation, for only one hundred thousand dollars of notes, to meet the negotiable paper maturing in the bank. In such a case, other things being equal, a greater or less depreciation of this paper currency, made up of two kinds of notes, is sooner or later inevitable. Here side by side are two methods of issuing paper and two sorts of currency. One hundred thousand is issued on the banking principle of the demand for the return of the notes being equal to the demand for the issuing of it, and quick, fixed and certain; whereas, in respect to the other hundred thousand dollars of notes issued on the inflation principle, there is no certain, fixed and early demand for the return of the paper to the issuing source.

All the vast volume of currency that has been put out by the Government has been issued in this inflation method. Indeed, unless the Government becomes a banker, it cannot issue paper in any other way than that of inflation. It cannot provide, in issuing it, a fixed, certain, and early demand for its return to the issuing source. England has always avoided this great blunder in finance. So has

France, since the miserable *assignats* went to grief. So have all the great Governments of Europe. They issue temporary exchequer bills only in time of war, or to meet some temporary emergency of sufficient gravity to call for the expedient; but the measure is early abandoned in every instance.

For the very reason that Government paper money must of necessity be issued in the inflation method, the natural and almost inevitable condition of that paper money must be one of greater or less depreciation, unless, indeed, as is just now the case, its amount is severely contracted. There is no sound method of issuing a paper circulation except in such a way that there shall be an early, certain and fixed demand for its return to the issuing source; and that can never be applied to a Government paper currency unless the Government itself becomes a banker, which God forbid.

But a worse measure is proposed. It is, that the Government shall issue its notes to the full amount of all the currency needed in the country; and shall, by its fiat, declare, without first rendering it convertible into gold, that its paper dollar, although fluctuating in value every day, shall be the measure of value in the land; shall be the dollar of business and commerce. I can't imagine a proposition so

irrational or fraught with so much mischief, public and private.

In the first place, the Government is pledged not to issue a greater amount of greenbacks than four hundred millions of dollars; and the proposition calls for a repudiation of the national faith.

In the next place, the greenback dollar is never, except under a merciless contraction, worth a dollar; cannot be worth a dollar if put out on inflation principles; will inevitably fluctuate in value down and up according to the state of the market every day in the year; and therefore the proposition is that the Government shall both legislate a palpable falsehood, and legalize a stupendous fraud.

In the third place, the consequences would be little short of revolutionary. The announcement that Government was about to put out four, or five, or six or eight, or ten hundred millions of new currency would be an invitation for the presentation to Congress of every imaginable scheme of internal improvements as conduits for the transmission of this money to an army of jobbers and contractors. The present doctrine on the subject of internal improvement is that the nation should not engage in or assist them, except in cases of great works not merely national, but continental in value, importance and

necessity; and that, as to such works the nation should have no direct part in their construction or management, but may only give to them the aid of its credit in a collateral way, in which its liability shall be amply secured.

Any doctrine beyond this would be repugnant to every idea which has been taught in Virginia for three-quarters of a century. No one could tell the degree or magnitude of open and insidious evil that would result from a combined rush upon the Treasury of the horde of applicants that would spring up and organize themselves for sharing in the hundreds of millions of dollars that Government would have the opportunity to dispose of. The rings that would be formed would be too strong for the virtue of Congress to resist or for the power of a conservative sentiment to put down. The very fact of hundreds of millions of new greenbacks being for disposal would inspire a ravenous hunger and clamor for the booty which could not be resisted.

But even if every dollar of the proposed hundreds of millions of the new issue were put out by the purchase, as is also proposed, of existing United States bonds; yet, even in that event, they would be issued on inflation principles, in a way that would render their depreciation inevitable. Busi-

ness men, seeing this depreciation to be certain, and not feeling competent to estimate how great it would be, or how frequent and how considerable its fluctuations would be, could not afford to make any of their contracts with reference to such a currency, but would base them from necessity, upon gold and silver values. We should have a repetition of the inflation of the war, without the existence of any great patriotic necessity impelling the people to give credit to the currency. We should be in the condition of Midas, whose touch turned everything into gold, and who was starving in the midst of infinite riches, worthless by their abundance.

The pressure of the times cannot be removed by a measure so irrational, dangerous and ineffectual as inflation. The country cannot afford to embark in a policy so dishonest, so dishonorable, and both commercially and politically so pernicious.

CHAPTER SIXTH.

HOW PAPER MONEY IS ISSUED BY THE PRINCIPAL POWERS OF WESTERN EUROPE—SIMILARITY OF OUR NATIONAL BANK ISSUES OF PAPER MONEY TO THE PAPER ISSUES OF GREAT BRITAIN, FRANCE AND GERMANY.

THE advocates of a greenback currency pure and simple, as to which no means shall be taken to maintain it at par with specie, whose amount shall be left to regulate itself, provision being made to allow its holders to convert it at will into Federal bonds, and at will to re-convert the bonds into greenback notes, of course propose to base their currency wholly and solely upon the credit of the National Government. That such money would be ultimately secure will not be denied; but it would be wholly irredeemable in what all other people in the world have, by common consent, for thousands of years received and paid as money. Being money of the Government, and the

Government not being liable to any sort of compulsion, not even the compulsion of shame if the repudiators control it, there would be no means of enforcing redemption. As to the outside world, it would be confessedly irredeemable. And as to the world at home it would be so necessarily; for the interest of three per cent. proposed to be allowed upon the interconvertible bonds, payable in paper money, would offer a poor inducement to money-brokers to buy up the money for investment except at a very fat shave.

It would seem plain, therefore, that unless the amount of such a currency put in circulation were very limited, unless it were issued in quantity very far within the currency needs of the country, unless its volume were very contracted, it would inevitably fall to, and continue at, a ruinous discount. Thus would the greenback financiers fail in the chief object of their scheme, an abundant, self-regulating circulation maintaining itself at par with the general level of values. Therefore, as to such a circulation, it is useless to consider the question of the best method of issuing a paper currency; for all the methods of doing so that have usually occupied the minds of statesmen, pre-supposes that the paper money issued shall be redeemable in specie; redeema-

bility, exchangeability, being the prime, essential desideratum, the *sine qua non* of all the different methods. In considering this subject, therefore, we must of necessity drop out of consideration the scheme of the Greenback party; who, like the learned John Jasper, would discard compass, quadrant, and the table of logarithms, and launch out without either upon the surface of an ocean of greenbacks. It is only the different methods of issuing a currency redeemable in specie, that will now be continued.

Let it be premised that the business of banking is a distinct and different one from that of coining money, or, what is equivalent to it, of making and issuing paper money. From the fact that the banks of our own country have until a recent period been allowed to "coin" and issue paper money, the popular mind has come to confound the two functions; and so we often see in resolutions of political meetings a denunciation of the ten per cent. tax put by Congress upon the paper issues of State banks as a "tax upon banking;" whereas the National Government imposes no tax (except a slight one on deposits and checks) upon the business of banking, but only taxes the issuing of paper money in any other way than under the safeguards imposed by the national banking law.

The business of coining money, whether metallic or paper, is a prerogative of government; while that of lending, negotiating, and dealing in money and credits, or banking, is a branch of commerce belonging of right to citizens, corporate and individual.

It is only with the business of making and issuing money that we have to do in this discussion; and it is now universally conceded that that business falls within the prerogative of government, to be regulated at its sovereign discretion; and that the prerogative is, in this country, vested by the Constitution in Congress—in the National Government,—in the restricted manner which will be explained in the eleventh chapter of this volume. In taking these two propositions for granted, we shall not be opposed by the Greenback party, whose postulates are, that the right of coining and issuing money belongs exclusively to the national Government, and that that Government may issue paper money *ad libitum;* needing to observe no precautions, nor to provide any regulating expedients in putting it forth, save such as are proposed respecting interconvertible bonds. In other words, their basis propositions are, that the coining and issuing of money belongs exclusively to the Government, and that such money of the Government, bearing its

fiat and stamp, and issued in conjunction with the proposed interconvertible bonds, will so regulate itself in amount as to preserve an unchanging value for each fraction of the issue, compared with general values.

It is to be observed that in all governments, especially in the three leading Powers of western Europe with which our relations are more direct than with other countries—Great Britain, France and Germany—the prerogative of regulating the currency at its will is jealously asserted by the Government; but that the business of issuing paper money is, by each, turned over to one or more banking corporations.

It is only in the United States that it is proposed to issue paper money directly by the Govern ment in a manner exempting it from the action of the regulating principle of efflux and reflux, which, if the money be issued in the banking method heretofore described, would attend the discounting and paying of negotiable paper based on the actual business operations of the community. In the other three great Powers mentioned, the governments turn over the business of issuing paper money to banking institutions, in order that the issuing of it shall be subject to the action of efflux

and reflux. In Great Britain all notes of the Bank of England are redeemable in specie, and all notes of banks other than the Bank of England are redeemable in Bank of England notes or specie. The note of the Bank of England is really not a note of the bank itself, but rather of the issue Department of the bank; which department is virtually but a bureau of the British Exchequer.

That department is by law allowed, first to deliver to the bank for issue £15,000,000 (seventy-five millions of dollars) of notes in lieu of the same amount of Government bonds which the bank holds as a permanent investment in the funds, and is also authorized to hand over to the bank for use as currency as many notes in addition as may be brought to it and deposited in exchange in gold coin and bullion, pound sterling for pound sterling. Thus the amount of notes of the Bank of England at any time in circulation is seventy-five millions of dollars, plus whatever amount of gold coin or bullion is actually in the vaults of the bank.

This intermediate agency of the Issue Department, controlled arbitrarily by the Government, was not introduced until 1844. For, until then there had been two schools of English financiers; viz: the advocates of the "banking theory" of

currency, and the advocates of the so-called "currency theory." The first school contended that a paper currency always convertible into specie, when issued by banks judicious and conscientious in making discounts, will be regulated safely by the principle of efflux and reflux attending the discounting and paying of negotiable paper based on business transactions, and will not be issued in excess. The advocates of the "currency theory," on the other hand, contended that there is a constant liability to excessive issues, even of a paper currency always convertible into specie and issued in the way of bank discounts; and that the exercise of the arbitrary control of Government is necessary to the proper regulation of paper issues. This discussion began in 1808 or 1810, and by 1844 the weight of opinion in favor of the "currency theory" had so decidedly preponderated as to result in the erection by act of Parliament, of the Issue Department of the Bank of England into a distinct institution, subject to the control of the Administration. It was shown, in the able and learned discussion of this important question, that the Bank of England did, during the long suspension resulting from the contest with Napoleon, although confining its discounts all the while to the soundest commercial

paper, which was always paid at maturity, yet unconsciously and unintentionally, inflated the currency more than twenty per cent. above the proper amount, producing such a depreciation that a gold sovereign worth £3 17s. 10½d. in paper when the paper was at par, rose at times to be worth £4 13s.; that is to say, gold was at a premium, and consequently paper at a discount, of twenty per cent.

English experience thus forced the conclusion, that this tendency to over-issues, even through the conservative filter of efflux and reflux, cannot be restrained in periods of speculation except by the firm hand and strong will of Government.

There is at times in the commercial world, an irresistible disposition to engage in speculating enterprises, just as at other times, there is as decided an aversion for them. When the fever for speculation takes possession of society, bankers sympathize with it as well as other classes. Indeed, as Mr. Newmarch remarks, " In most countries, but especially in England (and we may add, America,) there is at all times a profusion of enterprises to be undertaken ; of experiments to be tried ; of schemes to be worked out ; of improvements to be made ; of ingenious men to be set up with capital ; of trades already profitable to be made more so by vast extensions."

The result of this discussion in England was, as before stated, the adoption of the expedient of the Issue Department of the Bank of England, and placing it absolutely under the control of the Administration. So that now, Bank of England notes are virtually notes of the British Government, redeemable in specie through the agency of the Bank of England.

Except in details, substantially in principle, the system in the United States is the same as that of England, now that the specie redemption of greenback notes is about to be resumed. Our national bank notes are based on Government bonds, and may be issued, under the provisions of the national banking law, without limit of aggregate amount; the original restrictions upon their issue, as to locality and aggregate amount, having been wholly repealed. The greenback notes are about to be exchangeable with, that is to say based on, specie, and the Government is under pledge, by the act of June 30, 1864, not to issue them to a greater amount than four hundred millions of dollars. Under existing laws the paper currency may be enlarged through national bank issues to any amount that may be called for through these banks, by the business of the country or of any part of the country;

these latter notes being redeemable in greenbacks, and secured by United States bonds in the proportion of one hundred dollars of bonds to ninety dollars of notes.

Of the total paper currency of the country, therefore, as authorized by existing laws, not exceeding four hundred millions of greenback notes may be issued at the will of the Government, having the quality of legal tender and based on specie, and any number of hundreds of millions of national bank-notes may be issued in addition, subject to the conservative, regulating and restraining principle of redeemability in greenback notes, and of the efflux and reflux attending the discounting and paying of negotiable paper based on the business of the country.

A distinguishing feature in our national banking system is, that the banks are, in a large degree, owned by the people, as distinguished from the moneyed class. The report of the Comptroller of the Currency for 1877, shows that the number of their shareholders is 208,486, of which more than one-half hold ten shares and less each; only 10,851 hold as many as a hundred shares each, and only 767 hold more than five hundred shares each.

It will have been discovered from the foregoing

observations, that the three principles lying at the basis of both the English and American systems of paper money are—first, a Government control over the issues; second, redeemability directly or indirectly in specie, now that we are about to pass from the war measure of temporary suspension to the peace policy of permanent specie resumption; and third, the subjection of the paper issues to the action of the efflux and reflux attending bank discounts.

The system of paper money in France is essentially a specie basis one. The Government jealously maintains its prerogative of regulating the currency, and allows but one bank of issue in all France, the Bank of France; sternly requiring the issues of that bank to be redeemable in specie. It is only in periods of revolution or imperious public necessity—like that which attended the Germanic war and the subsequent payment of the Germanic indemnity—that the Government relaxes for a short period, its requirement of specie payment, and even comes to the aid of the bank in making its notes a legal tender for a brief season. Owing to the exhaustion occasioned by the expenses of the war and payment of the indemnity, the Government did not insist upon an actual resumption of specie payments until

January, 1878; though such a requirement would have been useless, as the bank has never allowed its notes to fall below the specie value. Until 1848 the bank issued no notes of a lower denomination than 500 francs ($100); and, since then, its smallest notes of 200 and 100 francs ($40 and $20) have not been profusely issued. The money of the poorer classes is specie, chiefly silver, and it is only the commercial classes, familiar with the responsibility of the bank, who make use of the paper money to any great extent. It is a very just remark of Mr. Bagehot that "the failure of the French armies has not been more striking than the success of French banking." At no period of the suspension since 1870 has the paper circulation of the Bank of France been allowed to issue in excess; and at no moment has the premium in gold upon the circulation exceeded one and a half per cent., very seldom reaching that quotation. These two points, of limiting the amount of circulation, and preserving its equivalency with specie, have been watched with the most assiduous solicitude during the whole period of war, of indemnity payments, and of suspension; and no country has ever before offered to the world such a model of cautious, conservative, and honorable financiering as France, since 1870. Its reward is found in the pros-

perity which has waited upon the French people; and in the praise and admiration of all governments and people. It is to be observed that the French Government has exercised its prerogative of regulating the issues of paper money through the agency of the Bank of France, thereby availing itself of the principle of that equilibrium between the efflux and influx of notes which attends the discounting and paying of negotiable business paper.

The German Government, since the French war of 1870, has assumed control over paper issues in the Empire. The most important feature of its financial system is the creation of a Central Bank of Issue. The London *Economist* remarks of the new measure: "It looks as if its framers had consulted the books of all the principal schools of banking and currency; had seen what they recommended to make banking safe, and had taken something from each." The Central Bank of Issue is allowed to issue only 250,000,000 marks (about sixty-two millions of dollars) in excess of the amount of coin available for redemption in its vaults; and a tax of five per cent. upon all notes issued in excess of the aggregate of $62,000,000, plus the coin held for the redemption of the paper. In Germany this tax of five per cent. on bank issues is almost equiva-

lent to our own tax of ten per cent. on State bank issues; but in periods of an exceedingly active demand for money, there are those who think that that tax would not be prohibitory in Germany. Thus the principal features of the English and American systems are apparent in the German; namely, the assertion of the prerogative control of the Government over paper issues; the solicitude of Government to preserve an equivalency between the paper issues and specie, by an arbitrary limitation of the amount of the paper circulation; and the subjection of the paper issues to the operation of the principle of efflux and influx attending the discounting and payment of negotiable paper founded on the business operations of society.

From this review of the systems of those great European Powers with which our country's material and political relations are most intimate, it is seen that they all make redeemability a first desideratum; that they all avoid issuing paper money directly by the government; that they all seek to subject their paper issues to the swing of the efflux and reflux which occurs under the banking method; and that they all take care to assert and maintain a direct governmental control over their paper issues.

The Greenback party propose to discard the

three first named and most important features of this policy, and to require the Government to issue its own notes to any amount which politicians may think pleasing to the people, without providing any return demand for them to sustain their value, and with sovereign disdain of all pretense of redeemability.

CHAPTER SEVENTH.

WHEREIN THE NATIONAL BANKING SYSTEM DIFFERS FROM AND IS BETTER THAN THE STATE BANKING SYSTEM, IN REFERENCE TO THEIR PAPER MONEY ISSUES.

IT was shown in the preceding chapter, that Great Britain, France and Germany—those three leading Powers of Europe with which our relations are most varied and intimate—all require their paper currency to be redeemable and exchangeable with the money of the world; that they all maintain a Government control over the issuing of it, and that they all adopt the agency of a bank in putting it into circulation, rather than the method of putting it out directly by Government. This is not only true of the three great Powers named, but it is true of all Europe, except Russia, Austria and Turkey, whose finances are in utter decay. Up to the present period of history, if a nation is at peace, the issuing by it of an irredeemable government paper currency has been regarded as a confession of

national bankruptcy, and it is only nations bankrupt in their finances which have, while at peace, resorted to this measure.

In view of the fact that all nations not confessedly bankrupt prefer that their paper currency shall be put out through the agency of banks rather than directly by Government, the question arises in this country whether or not our national banking system shall be preserved, and employed as the agency for issuing all paper money beyond the $400,000,000 of greenbacks allowable by law.

It is obvious that Government notes to some amount, having the legal tender function, and receivable in payment of all dues to the Government, may be safely issued; and that they will maintain the quality of redeemability through the fact of being legal tender, and receivable for all dues to the Government. And although there is no mathematical test for ascertaining *a priori* what amount of such Government notes would retain that quality, yet I am quite sure that the present aggregate of $400,000,000 which the Government is now at liberty under its pledges of the public faith to issue is within that amount.

Though by no means a champion of the national banks as institutions, I certainly prefer that system

to any other system of banks of issue ever known in this or any other country. The proper business of banks is with discounts and deposits, with credits and loans, and with money that is already money when the banks come to deal in it; it is not properly part of the business of banks to manufacture money and issue it as such. That function has long been permitted to them by Government; but the business of issuing their own paper promises as money is separate and distinct from their proper business of banking. But for the great advantage which the banks possess, in discounting short-time paper, of creating a demand for the money they put out when the discounted paper matures for payment, and thereby giving currency to, and sustaining a continual demand for the paper money which they issue—called the efflux and reflux—but for this advantage, banks would rarely have been entrusted with the function of issuing paper money. The advantage of this principle of efflux and reflux, formerly explained, is so great that all the European nations in which there is a considerable redeemable paper currency, take care to have it issued wholly in this banking method; and I greatly doubt whether any paper circulation of large volume can be maintained, at par value, at a redeemable

rate, unless it be issued in the banking method. Indeed, banks of issue seem to me to be a necessity to a large paper circulation.

The national banks of this country, are, therefore, in my judgment, the best banks of issue ever devised. It is a system by which the notes of a bank in Maine, or Texas, or Oregon, pass as current in New York as those of a bank of New York.

I am not a champion of these banks because in certain sections of the Union their shareholders and officers are themselves willing to abolish the general law and to leave the several State legislatures at liberty to regulate the issue of bank notes in the several States at their pleasure. This I am informed, is the temper of national bank men in New England and New York. Under the old State bank system it was very easy and inexpensive for all New England banks to redeem their notes at par in Boston, and for all banks in a similar area around New York to do the same in that city. Then the banks and merchants of Boston and New York enjoyed the privilege of setting a price at their own pleasure, upon the notes of all southern and western banks, and of subjecting the business of those two great sections of production to any tax in the form of a discount upon the notes of their banks, which Wall

street conscience might dictate. Under the national banking system a note of a national bank of Mississippi is as good in New York as a note of a national bank of Boston herself; and this state of things, we may imagine, may not be altogether agreeable to the money kings of those two cities.

Naturally enough, the national banks of the South, and for the most part of the West, prefer a system like the present one, under which their notes are subject to no arbitrary discount in New York or Boston; and those misguided people in the South who advocate a return to the old system virtually propose that the business of their section shall be submitted to the tax of one to ten dollars for every hundred dollars of payments which it shall make at the North.

The old system of banking under State laws was substantially as follows: A bank's capital of, say, $100,000 was paid in by shareholders. Under the laws then in force the bank was permitted to make notes of circulation and issue them to the amount of another $100,000. Thus the fund of the bank for discounts was $200,000. It received deposits, greater or less in different localities, but we will say usually not less than $50,000. With $30,000 of this $50,000 it provided specie reserves for meeting such

of its notes as might be presented for payment in specie at its counter.

Thus provided the bank proceeded to make loans on negotiable paper generally to the full amount of $200,000—the aggregate of its capital and circulation. There being always two hundred thousand dollars of debts due to the bank, and payable, if its borrowers were solvent and responsible, there was always a sufficient demand for its outstanding bank note circulation of one hundred thousand dollars to absorb them; and the bank was in no danger of inability to redeem its circulating notes except in periods of collapse and crisis, when, indeed, it might suddenly find that it had been lending improvidently, and that not one-tenth or twentieth of its debtors were able to pay their notes on the day of the bank's great need. It will be observed that in lending its capital and its notes of circulation it has been receiving interest on a fund one-half of which are notes of its own creation and not real capital. It will be observed that the public who held its notes of circulation had no security for their redemption except in the solvency of the bank's debtors, and in the reserve of thirty per cent. of specie which the bank was required by law to keep on hand.

The national banking system is different from that just described. The shareholders of a bank are required to invest their hundred thousand dollars of capital (if that be its amount) in Government bonds. They are required to deposit these bonds in the Treasury of the United States, and the Treasurer thereon delivers to them ninety thousand dollars of national bank notes, countersigned by the United States Treasurer, which the proper officers of their bank are also required to sign; in these notes that particular bank promises to pay to the bearers so many dollars in United States legal tender notes (greenbacks). *

This bank, then, has only ninety thousand dollars to lend after completing its organization. Deposits and other resources usually enable it to lend one hundred thousand dollars or more; but the requirement which the law imposes as to the deposit of United States bonds as a security for its notes of circulation, deprives it of the liberty which the old

* "Under existing laws national banks are required to deposit with the Treasurer of the United States lawful money of the United States sufficient to redeem their circulation; and the Treasurer is required to redeem said circulation in United States notes. See section 3, act of Congress, approved June 20, 1874; also sections 5,222, 5,224, and 5,226 Revised Statutes of the United States."

Secretary Sherman.

banks had of lending out the amount both of its capital and of its circulation.

The tendency of the system is to restrict the paper money issues of the banks. It is true that the national banks draw interest from the Government on the bonds which they are required to purchase and deposit. It is true that in addition they make interest on the ninety per cent. of notes of circulation which they receive from the United States Treasurer in exchange. But it is very plain, nevertheless, that this is not as profitable a system to the banks as the old one. They make interest on but ninety per cent. of circulation, whereas the old banks made it on a hundred per cent. They receive only four, or five, or five and a half, per cent. on their Government bonds, whereas the old banks charged borrowers eight or ten or twelve per cent. As to the Government, it insists upon a forced loan from the national banks at a low rate of interest, of their whole capital stock, whereas the old banks were relieved of this forced loan. The Government now pays to its involuntary national bank creditors some fifteen millions of dollars on its forced loan from them. It thereby saves the people at large from paying the banks on an equivalent capital what under the old system at eight per cent. would

have been twenty-five millions, and at six per cent., twenty millions.

I see no just ground of objection therefore, in the complaint of the Greenback party that the national banks are drawing fifteen millions of dollars needlessly from the treasury. The business of banking would cease if some such source of extra income were not open to them, and if this system of a circulation secured by Government bonds be abandoned, and State banks allowed to issue their own notes as of old, the people would be directly taxed twenty to twenty-five millions of dollars annually, whereas now they are taxed through the Government only about fifteen millions.

The people would gain nothing; on the contrary they would lose much in respect to this tax, by a change from the national banking system to the State bank system. Under the national banking system the circulation of southern and western banks has equal credit in the money centres with the banks of the manufacturing sections of the Union; and I do not know how they could obtain this credit under any other system. They would certainly lose it under the State banking system, and their trade be subjected to that worst of all taxes, a tax on its money.

My own conclusion is that a large volume of paper circulation redeemable in specie cannot be maintained except by issuing it in the banking method, and that there is no way of preserving its value equally all over the Union except by means of our present national banking system.

This system is not as popular with the public as it should be, because it does not afford as liberal loans as State banks of the same capital would do if allowed to issue a State bank circulation; and it is not popular with the shareholders of the national banks themselves, because their profits are cut down by the rigid policy of the Government too much to leave a proper margin of profit.

There is also a demand from uninformed quarters that the Government bonds which they are required to deposit as security for their circulation shall not bear interest. Few new national banks are springing up in the country, while a good many of them are voluntarily closing business. This would not be the case if their business were profitable. They would, no doubt, have great capacity to render assistance to the public if the laws of the country were such as to permit them to make a greater profit than they do.

It may be well, therefore, for the public to

look a little into the facts of this subject. During the fiscal year 1877–78, the national banks held bonds of the Government on deposit with the United States Treasurer to the amount of $346,243,-550. On these bonds they received in interest from the Government $17,290,071. Their circulation (ninety per cent. of the bonds held) was $341,619,-195, on which they paid to the Government a tax of one per cent., or $3,116,192. Thus the net amount which they received from the Government in interest on bonds held to secure their circulation was $14,173,879. This being gold, its equivalent in greenbacks at the premiums of last year raised the value of the interest which they received to about $15,000,000.

In addition to the tax paid on circulation just mentioned, the national banks paid the National Government $2,359,895 in other forms of taxation; and also paid State and local taxes to the amount of $9,701,732. Thus the aggregate of taxes they paid reached $16,777,819. It is clear, therefore, that very little of the interest of $17,290,071 which they received from the National Government was left after they had squared up their numerous tax accounts.

There is still another requirement put upon these

institutions by the national banking law which considerably restricts their capacity for affording facilities of discount to the public. On the ninety per cent. of currency which they are permitted to issue on the bonds they deposit, which has been stated to have been last year $311,619,195, they are required to deposit with the Treasurer of the United States five per cent. as a redemption fund to meet notes presented at the Treasury for payment. The aggregate of this deposit was, last year, $15,619,195; which, of course, formed no part of their discounting fund, and was unproductive capital on which, at eight per cent., they might have made interest to the amount of $937,146. The loss of this interest was virtually a tax upon them; and, if added to the tax before stated, this virtual tax runs up their aggregate taxation to $17,715,065. Thus the interest received by the banks from the National Government on its bonds held by them was swept away in taxes which they paid; more than half of which ($9,701,732) was paid to the States and cities in which they are located. Therefore the demand of the Greenback party, that the interest which they receive from the National Government, on bonds which they own, is a demand to release them from more than nine millions of dollars of local taxation and

eight millions of national taxation which they now pay.

It is a fact that fewer national banks have failed than of any other class of banks that ever existed with like amount of capital employed in business. They have not failed, although they charged off of their books to profit and loss, bad debts, in 1876, to the amount of $19,719,026; and in 1877, to the amount of $19,933,587; that is to say, they lost by bad debts in two years $39,652,613. These losses are due to the times, and are the fate which all banks must meet in periods of public distress; but these heavy losses to these banks have caused no loss to the public. It is plain that the losses and the taxes which have been thus described have left little margin for profit to these institutions; and they largely account for their inability to afford all the accommodations to the public which, under more favorable conditions, they might do. Notwithstanding these drawbacks upon them the public well know that what Mr. Sherman said of them in Toledo in September, 1878, is strictly true:

"These taxes would all be lost to the United States and to the States if the national banks were abolished. Their notes are secured beyond peradventure, they are protected from counterfeiting far

more successfully than any former system, and to their credit be it said, not one dollar has been lost on any national bank note ever issued. Wherever you go you may carry them with safety, without examination as to where and when they were issued. They are good everywhere in the United States."

Secretary Schurz spoke as truly at Cincinnati when he said:

"Compare the State bank system as it existed before the war with our national banking system as it exists now, and what do you find? Under the State bank system we have had partial and general suspensions and breakdowns of banks, in 1809, 1814, 1825, 1834, 1837, 1839, 1841, and 1857, resulting in aggregate losses of hundreds of millions to bill-holders and depositors, and the most disastrous confusion in the business of the country. Our national banking system has now been in existence about fifteen years. It has passed through a financial crisis more distressing, perhaps, than any that ever swept over this land. And what has been the result? Not a single holder of a national bank note has lost a single cent; and the whole loss suffered by depositors in national banks during the whole period of their existence, including those terrible years of collapse

and distrust, amounted to about $6,000,000, a loss less than that suffered by depositors in State and savings banks this year alone."

I have already expressed the opinion that no large amount of paper currency can be successfully put out in the United States except in the banking method; that no better system of banks of issue ever existed in any country than that of the national banks of the United States; and that there is no method by which any large amount of paper money can be issued practically or safely save through the agency of the national banks. In consequence of silver demonetization in Europe, it may, at some early day, become necessary to enlarge the present volume of our paper currency by some two or three hundred millions beyond what it is. I think it is clear that the policy of our governments, both State and national, ought to be more liberal to the national banks.

The Greenback party propose to substitute the issues of the national banks with legal-tender irredeemable Government notes, but they do not propose to substitute State-bank notes for them. On principle, the genuine greenback advocate opposes State-bank issues even more vehemently than the issues of national banks. But there is a class in Vir-

ginia coöperating with the Greenback party who are very earnestly in favor of restoring the old State-bank system of circulation. They are willing to avail themselves of the assistance of the Greenback party to break down the present system, though entertaining no belief themselves that the greenback craze will have more than a temporary existence.

If we could bring back the old banks of Virginia, with their large capital, their immense body of wealthy stockholders, and the sterling, widely-respected, true, staunch, tried officers who conducted them; and if we could bring back the times of the old stage coaches for travelling, and of the slow sail vessels for shipping, which were cotemporary with them, the system might again be practicable; but it will not be so again until then.

The times have not yet returned to Virginia, of a large surplus capital capable of being invested in the capitals of great banks in amounts counting by millions of dollars. If we establish banks now, they must be based, to a large extent, on capital raised by kiting expedients. Their officers must be very familiar with the methods of getting along by shifts and contrivances. The public could not feel that confidence in the stability of the banks or in the soundness of the men who conducted them, which it

used to have in the old Farmers', Virginia, Exchange and Valley banks, or in the Caskies, Hobsons, Macfarlands and Sharps who managed them. The feeling of the public would be as panicky in regard to any banks of issue which might now be established on the loose, unguarded system of the past, as the condition of the banks themselves would be rickety. I doubt if banks of issue on the old basis of an unsecured currency could stand at all.

The capital of the great banks of Virginia in 1857 was about ten millions of dollars, as follows:

Virginia Bank	$2,651,000
Farmers' Bank	3,150,000
Exchange Bank	2,595,000
Valley Bank	1,215,000
Total	$9,611,000

This capital was all converted into the grey-back currency of the Confederate Government, and perished utterly. Will any one contend that there is any like amount or any appreciable amount of capital now in Virginia for investment in banks of issue? I think not. To invest borrowed money in banks of issue would be to establish a wildcat system of circulation which would be a curse upon

our home people, and be driven out of circulation by every other people.

The plausible idea obtains that we could have a domestic bank circulation for domestic purposes which need never pass the borders of the State, and which we could all mutually agree to receive and pay at par in our domestic transactions. Alas! we cannot be in a world of steamboats, railroads, and telegraphs, and yet have backwoods methods of business and primitive simplicity of transactions. We are of the great world as well as in it. We can now go from Richmond to Quebec or Cuba sooner or nearly as soon as we could formerly make a trip to Lynchburg. We can cross the ocean to Liverpool sooner than we could formerly cross the State to Kanawha. We can go to sleep in Richmond and wake up in Boston or Cincinnati, running over several States during the nap, wholly oblivious of their old ideas of State sovereignty. The dealings of our merchants are no longer local and at long intervals. They make their purchases at great distances and make them weekly, daily, hourly, where they formerly made them once or twice a year. The annual amount of the domestic commerce, (the internal dealings between communities) in the United States is said to reach thirty thou-

sand millions of dollars. Could this be carried on with local currencies, worthless and unknown a hundred miles from the place of issue?

The cost to the country of such currencies is thus indicated by the U. S. comptroller of the currency in his annual report for 1878: "Even if all the State circulation shall be well secured, it will be impossible under the varying legislation of different States to secure the issue of a homogeneous currency of equal value throughout the country. The cost of exchange, which has nearly disappeared during the last fifteen years under the present system, will again be revived. The rate will not, perhaps, be so large as in former times, but yet large enough to be a grievous burden upon the business of the country. Few persons have a just conception of the many advantages possessed by a homogeneous currency fully secured, the issue of a single system, redeemable at a common point, and exempt from discount occasioned by the irregularity of value in different localities. Great pains have been taken to obtain an estimate of the amount of exchange issued annually upon New York by the western and southern States. The amount drawn upon New York alone is estimated at nearly $3,000,000,000 annually; and it will not probably be an exaggera-

tion to say that not less than $4,000,000,000 are annually drawn in exchange by the West and South upon the East. The amounts drawn upon each other by the banks in the commercial cities and States of the East is also great. In 1859 the average cost of southern and western exchange upon New York was not less than from 1 to 1½ per cent. If this latter rate should be restored, the cost of exchange alone would be $60,000,000 annually; while if the rate were but one half of one per cent., which was the current rate in the State of New York in the year 1860, a loss in exchange of $20,000,000 annually would ensue, to say nothing of the loss upon the issues of banks not organized upon correct principles."

How can any sane person persuade himself that the old era of special currencies can again be brought back? With the bank-notes in circulation around us we pay the bill we owe to the merchant. He expresses this money at once to New York, Boston, Philadelphia, Baltimore, Cincinnati, Chicago, St. Louis, or New Orleans, where he owes bills. The Richmond merchant does not buy on Main street to sell on Broad. He does not buy in Richmond to sell in Lynchburg or Danville. The merchants of the present day, all over the

State, buy beyond its limits to sell within its limits; and the money which they receive at home to pay their purchases with must be something else than token-money passing by social courtesy among neighbors who have resolved to revert virtually to a system of barter. It must be money of account, money of the whole country, money that will be received in payment wherever, abroad, the merchant has to pay for what he has sold his customers at home. The two Connecticut youths locked up together by the school-master, who spent their time swapping knives until each had won a large boot off the other, are types of that domestic system of banks which a class in Virginia desire; but it is too late in the history of the world for any such scheme to exist again. The absolute isolation which such a system of local bank circulation as they propose would require is no longer practicable or possible. Banks of issue on the old basis would not be sustained if established. There is not the capital with which to create them, and the public confidence which would be necessary to their success could not attend them. The people have tasted the luxury of a safe bank-note circulation, and they will not now forego it for an unsafe and local one. They will not imitate the folly of the man who

required the epitaph to be engraved upon his tombstone:

I was well;
I wished to be better;
I took physic;
And here I lie.

Mankind are as liable to intellectual epidemics as the sad events of the lower Mississippi valley* show that they are to physical. Men are imitative and gregarious even in their infatuations, religions and crimes. But this difference is observable between their physical and mental maladies—the physical recur time and again after periods of intermission, while the mental seldom recur more than once to the same community. The South Sea Bubble can never again be possible in England; nor Law's Mississippi Scheme in France; but either is possible in America. Here we have passed through an era of rapid development and inflated prosperity, which has been followed by a counter period of severe depression. The popular mind is perplexed and at sea for an explanation, and the popular temper is disposed to accept any wild theories of finance and public economy that may be offered. And so the South Sea Bubble and the Mississippi Scheme, impossible in Europe, reäppear in America in the

* The allusion is to the yellow fever of 1878.

form of the Greenback Craze. In Europe there is no craze for an inflated paper currency, for there the burnt child dreads the fire. But here we are in danger of contributing our chapter to the great and awful book of human folly.

In the endeavor to contribute what I might towards averting such a danger, I have contended that a paper currency should never be issued in time of peace, except with ample and certain provision for securing its redemption in specie or the money of the world; that even a redeemable currency should never be issued in quantity exceeding the currency needs of the country, and that, as an important safeguard against such an excess, it should be issued in the banking method, so that it may be in direct relations with the business of the country and be restricted in volume by the practical needs of that business. I have contended that it was a cardinal necessity that paper money should be issued in the banking method, if any large quantity of it were to be put out, in order that there should be a continual demand for it among debtors to the banks, which would impart to it a life principle such as that of running water; whereas a large paper circulation thrown out loosely by Government would lack that life principle and be like the stale water of a stagnant pool.

I have considered this whole subject, up to this point, simply with reference to redeemability in gold and silver, and have had no reference to the great question now agitating the financiers of all nations—whether gold alone, or silver alone, or gold and silver together, shall be the legal-tender standards of value in the world. It is not to be concealed that this difficult and towering question has violently disturbed the financial systems of the world. The public must not be blinded to the fact that, in reference to this question, the financial systems of all nations are in a crisis involving in an alarming degree the interests, the welfare, and the destinies of mankind.

CHAPTER EIGHTH.

THE INTRINSIC VALUE OF GOLD AND SILVER—THE WANT OF IT IN PAPER MONEY—LIMITED VALUE OF THE GOVERNMENT "FIAT" IN IMPARTING THE MONEY FUNCTION TO THE PRECIOUS METALS; AND ITS NECESSITY TO PAPER MONEY.

IT is contended by the advocates of a fiat greenback currency, that it is the stamp of the Government on coin which alone gives it its value; and that the same stamp on paper will alike impart to it a magical worth. Thus to contend is to lose sight of the meaning of value. Some confusion of mind prevails as to what is called the *intrinsic* value of things. That the mere paper used in the manufacture of paper money has no appreciable value is evident; and the advocates of that money contend that gold and silver have but little more intrinsic value, their whole value as money being derived from the stamp of the government mint. Certainly does this mint stamp impart some value to

the precious metals. It guarantees their purity, it endows them with the legal tender function; and, as stated in chapter third, it thereby fixes their value by lifting them out of the category of commodities of commerce into the higher character of money. But as also shown in that chapter, it is necessary for the material of money to have rare intrinsic worth, to be scarce, to be difficult of procurement, and to be incapable of indefinite production.

That gold and silver have intrinsic value can be made very apparent. It was abundantly shown in chapter third that no other substance can be made to serve permanently and with universal and continual acceptance the important purposes of money; and that use as money is one of the most valuable uses that a substance can have, and is a use absolutely indispensable to society in every stage of civilization.

Now, things have intrinsic value only for the use to which they are put. A horse has no value in the shambles, as a sheep has none for the purpose of draft. A ship's crew at sea wanting meat for food would give little for a horse or a mule. A farmer wishing to purchase an animal for draft, would give nothing for a calf or a sheep. It is the use to which things are put that determines their value, whether

that use be production, or comfort, or ornament, or something else. A horse has value *as* a horse only for the purposes for which a horse is used. If those purposes are important to society, then this animal has an intrinsic value to society exactly measured by that importance, whatever may be his market value under the law of demand and supply. So of sheep, so of oxen; they have intrinsic value *as* sheep, *as* oxen, commensurate with the purposes for which the two classes of animals are used; and they have intrinsic value only with reference to those purposes.

Now, in the affairs of this world, there is nothing more useful than the things which are employed by enlightened nations as mediums of exchange, as measures of value, as representatives and embodiments of pecuniary capital. And those substances which all nations agree to employ attain universal value. It is only savage nations who dispense with these substances, and they do so from savage ignorance of their convenience and utility. Civilized, and especially commercial communities, could better afford to dispense with sugar, coffee, tea, with personal ornaments and luxuries of every kind, than with money. Whether considered philosophically or economically, there are no articles save the prime

necessaries of life so useful, so indispensable to society as money. And, therefore, those substances which best serve the purpose of money, not only between individuals of the same society, but between different societies and nations, have an intrinsic value that is short of that possessed by but few things with which God has blessed mankind.

Aristotle considered the consent of mankind to be the first and firmest basis of truth; and contended, that, if any one reject this basis, he will nowhere find another so firm. Let me ask, then, on what topic of practical economy are mankind of all regions and ages more generally agreed than upon the use of the two precious metals as money. This general agreement has the more sanctity because it has not been arbitrary and voluntary, but has been the result of a necessity which mankind was under to elect materials for money in competition with which no others could be thought of.

It is after the experience of thousands of years, and the trial and rejection of every other substance that could possibly be used for the purpose of money, that gold and silver have become the substances selected by the universal agreement of mankind as the money of the world.

These substances have value as money therefore,

independently of the stamp of governments, and it is only such extraordinary acts as that of Germany in driving three hundred and fifty millions of dollars of silver out of use as money, and filling the world's markets with it merely as a commodity, that can sensibly affect the intrinsic value of either silver or gold.

If a substance is intrinsically valuable by reason of its perfect adaptation to an important use, vital to the welfare of society, which no other substance can compare with it in serving, then gold and silver have an intrinsic value for use as money possessed by none of the substances desired by society for that purpose.

Is it pretended that the stamp of the Government's mint can give these qualities to paper? It cannot do so; and it is for that reason that paper will not answer for money except by legal compulsion and within provincial limits.

There can be no other world's money but gold and silver; and it seems to me to be a self-evident proposition that a country so great, so enterprising, so expanded in its commerce, so commanding in its influence among nations, so honored and respected by all peoples, and so universally engaged in foreign trade as the United States, should not

discard gold and silver money by adopting an irredeemable paper currency in its stead.

Some writers on political economy claim an intrinsic value for gold and silver as arising from the cost of mining the two metals. But I think the cost, whatever it may have been, of producing the ten thousand millions of gold and silver now in use as money in the world, has very little to do with their intrinsic worth. The present cost of mining has much to do with the present market value of bullion; but the market value of bullion has very little relation to the intrinsic value of the two metals as money; that is to say, the latter value has but little dependence upon the former.

In Mr. Locke's day the only money in general use in England was of silver. In writing on the subject he naturally used the word *silver* for the word *money*, embracing both gold and silver when he says: (in vol. fifth, tenth London edition, 1801.)

"Silver is the instrument of commerce by its intrinsic worth. The intrinsic value of silver considered as money is that estimate which common consent has placed on it, whereby it is made equivalent to all other things, and consequently in the universal barter or exchange which men give and receive for other things which they would purchase

or part with, for a valuable consideration; and thus, as the wise man tells us, money answers all things."

It is the common consent of all men, seconded in most countries by legal tender and coinage laws of government, which give to the precious metals that use as money from which they derive their intrinsic value. It is they only which are thus used by the universal common consent, and it is this value which they alone have by such universal consent for indispensable uses which constitutes their intrinsic worth. The fact that governments coin the two metals and stamp them, is a guarantee of their standard purity which of course enters as an element into their value; but the stamp as such imparts no real value. The function of legal tender which governments give them, also enters as one of the elements into their value; but the imparting of this function is only necessary to prevent those fluctuations in their market value which would result from the operation of the law of demand and supply, acting upon them as articles of commerce; but this is only a regulation, safeguard and protection to their value, and not a creation of any intrinsic inherent and original value in them.

Nothing of all this is true of the paper of which paper money is made; and it is idle to claim, from

the fact that the stamp of governments improves the fitness of gold and silver for use as money, (a use which they alone have independently of that stamp,) that the mere stamp is all-sufficient to impart the complete functions of money to paper billets or any other substance.

CHAPTER NINTH.

THE EVILS OF BASE MONEY AS SHOWN BY REASON AND AS TAUGHT BY HISTORY.

THE principal evils of a redundant paper currency are,—that, being a base money it drives gold and silver out of the country; that, being essentially a local money, it can have no currency outside of the country in which it circulates to the exclusion of good money, thereby placing the producing classes of that country at great disadvantage in trade with all other nations; and that, by inflating prices at home, it works heavy injury upon the laboring and especially the rural classes of society, and acts unequally upon different classes.

It is not possible for the United States to have, permanently, a special currency bearing no relation to the money of the world. Its interests lie in a foreign trade as free as possible; its commercial transactions with the outside world must of necessity be large and widely extended; it cannot surround itself with a Chinese wall, and treat the methods and arrangements of other nations as those of barba-

rians in which it will have no art or part. God planted this empire here, and built it up in magnitude and power, for a different purpose than to lapse into the effete, ignoble policy and practice of China and Japan, which even those conceited nations have at last abandoned in very shame. The destiny of this great nationality of ours is to universal intercourse and controlling influence with the nations of the earth.

Yet it is not Government money redeemable and exchangeable in money of the world that the Greenback party propose. They do the reverse—they oppose convertibility. They insist that the money which they advocate shall not be redeemable in specie. If so redeemable it would be too valuable to be plentiful, and so they insist upon making it irredeemable.

There is no objection to the mere fact that the paper currency of a country is issued by its Government. Provided the money be good, it is immaterial as to its quality of money, whether it be issued by Government or corporations or individuals. If by others than Government, it must of necessity, be redeemable, or it will have but a short career. Irredeemable money, to be current for any length of time over an extended area, must be issued by Govern-

ment. If the Greenback party desired the quality of redeemability to belong to their money, they would not insist that it should be Government money. They desire it to be issued by Government in order that it shall have no redeemability in, no relation to gold and silver, the money of the world. They thus ignore the era of the world's history in which we live. They are oblivious of the infinite relations and dealings of our great country with other regions through the instrumentality of steam and electricity. They would segregate our money from the money of the world in an age when our relations with the world have become more varied, intimate, intricate, and expanded than was ever the case before with any nation in history. Thus the party itself and its measures are a monstrous anachronism.

Porson said jestingly that he thought he could write the history of human follies in about five hundred volumes. Another author has said seriously that a mere list of the religious manias which have at different times afflicted the human mind would fill a volume. In Mackay's history of the South Sea Bubble he gives a list of nearly a hundred schemes by which operators in paper devices were at one and the same time utilizing the gullibility of the Eng-

lish public. Among these schemes was one for inventing, manufacturing and operating a perpetual motion machine. Something out of nothing. Money and property for all by the ingenious printing and manipulating of paper is a form and type of craze with which modern history has been very familiar.

Relief by inflation, rescue from hard times by a profuse issue of irredeemable paper money, is the remedy, a thousand times disastrously tried before, which the greenback party propose for the country. It is the same remedy that was proposed in France at the beginning of the Assignats. It is the same remedy that was resorted to over and over again by the American colonies during the penury and poverty of their Colonial existence; always entailing disaster, ruin, misery, and remorse. It is the same remedy that was employed in the decade between the closing period of the Revolutionary war and the adoption of the Constitution of the United States, a period whose history has never been written, and when written will be a continual wail of woe, sorrow and despair. In Virginia such was the utter prostration and demoralization in which the collapse of the various paper currencies had left society, that the people rose in arms, resisted the sheriffs, and ab-

solutely refused to pay taxes; so that for years the State Government was supported by the voluntary contributions of such few wealthy and patriotic persons as had escaped the desolations of the war and the demoralizations of the times. The story is fearfully told in those volumes of Dr. Palmer's compilations from the State archives, which have not as yet been published. The state of things in Virginia was but a type of the state of things everywhere else in the land.

It was the fearful teaching of the experience of those times that produced that popular horror of irredeemable paper in deference to which were inserted those provisions in the Federal Constitution which prohibited the States from emitting bills of credit and making anything but gold and silver coin a legal tender; and which give to Congress the exclusive right to coin money, and to regulate its value and the value of foreign coins.

Speaking of these provisions, Mr. Madison, in one of his papers written for the *Federalist*, says:

"The extension of the prohibition to bills of credit must give pleasure to every citizen in proportion to his love of justice and his knowledge of the true springs of public prosperity. The loss which America has sustained, since the peace, from the

pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industry and morals of the people, and on the character of republican government, constitutes an enormous debt against the States chargeable with this unadvised measure, which must long remain unsatisfied: or rather an accumulation of guilt, which can be expiated no otherwise than by a voluntary sacrifice on the altar of justice of the power which has been the instrument of it. In addition to these persuasive considerations, it may be observed that the same reasons which show the necessity of denying to the States the power of regulating coin prove, with equal force, that they ought not to be at liberty to substitute a paper medium in the place of coin."

P. Webster, writing in 1791, with memory fresh respecting the transactions of the period 1777 to 1787, says:

"The fatal error, that the credit and currency of the Continental money could be kept up and supported by acts of compulsion, entered so deep into the minds of Congress, and of all departments of administration through the States, that no considerations of justice, policy, or religion, or even experience of its utter inefficiency, could eradicate it. It seemed

to be a kind of obstinate delirium, totally deaf to every argument drawn from justice and right, from its natural tendency and mischief, from common sense, and even common safety. This ruinous principle was continued in practice for five successive years, and appeared in all shapes and forms; that is, in tender acts, in limitations of prices, in awful and threatening legislative declarations, in penal laws, with dreadful and ruinous punishments, and in every other way that could be devised, and all executed with a relentless severity by the highest authorities then in being—namely, by Congress, by assemblies and conventions of the States, by committees of inspection (whose powers in those days were nearly sovereign), and even by military force; and though men of all descriptions stood trembling before this monster of force, without daring to lift a hand against it, during all this period, yet its unrestrained energy proved ever ineffectual to its purposes, but in every instance increased the evils it was designed to remedy, and destroyed the benefits it was intended to promote. At best its utmost effect was like that of water sprinkled on a blacksmith's forge, which, indeed, deadens the flame for a moment but never fails to increase the heat and force of the internal fire.

Many thousand families of full and easy fortune were ruined by these fatal measures, and lie in ruins to this day without the least benefit to the country, or to the great and noble cause in which we were then engaged.

"I do not mention these things from any pleasure I have in opening the wounds of my country, or exposing its errors, but with the hope that our fatal mistakes may be a caution and warning to future financiers, who may live and act in any country which may happen to be in circumstances similar to ours at that time."

Nothing can be more vain than the hope of finding a remedy for the distressed condition of the people in an irredeemable paper money, which Government by its *fiat* (reïnforced by whatever penal legal-tender laws or military appliances it may think expedient or necessary) shall endeavor to make current by compulsion. Make the money good, and it will pass without compulsion. So arrange that deserving people may obtain it for reasonable periods of time at legal rates of interest, and the financial skies, at least of Virginia, will at once begin to brighten. But make the money bad, so that trading in it at all, especially borrowing it at usurious interest, is but a form of gambling;

make it bad, that is to say irredeemable, assign to it a value which it has but by the *fiat* of Government, and it ought not to pass current; it ought not to be and cannot be made current by the coercion either of tender or tax laws.

It is not in this sort of money that the people of the South can find any relief. Economy, patience, good money will bring any people out of trouble in time, especially a people who produce such crops as tobacco, cotton and grain. Stick manfully to good money, and my opinion is, that the most efficient remedy, at least for Virginia, would be a low rate of interest on loans running for periods sounding in years instead of days. If measures could be taken to enable the great body of industrious citizens to borrow good money at six per cent. interest or less on long time, not only would the people individually be able to emerge gradually from their embarrassments, but the affairs of the State would soon take on a new complexion, and we should hear little more of reädjustment either forcible or voluntary. If the leaders of public opinion in Virginia would expect less from immigration and cease to expect anything from cheap bad money, and endeavor to procure for the people a dear money on reasonable time at

low rates of interest, they would become public benefactors.

The people of this State could much better afford to pay double the taxes they now pay than the fearfully usurious interest of ten to thirty per cent. which the banks—more especially the interior State banks—have been charging for thirteen years on sixty and ninety days paper, the only sort of paper which they discount. This usury is the remorseless canker-worm that has destroyed the bud of hope and falsified the promise of prosperity which we had in the South in 1865 to 1869. It has been the daughter of the horse-leech whose cry has been give, give, and has never been satiated.

He would be a benefactor worthy of a monument in gold, who, on the basis of our lands and their annual crop of tobacco, cotton, wheat, and other export products—that is to say, specie-commanding products, should organize a system of loans of good money for our people, at low rates of interest, for periods regulated by the marketing of crops. I confess that such loans could not be effected in usurer-ridden America; and that resort must needs be made to Europe for them. Has not Virginia, even in our day of small men, delusive expedients, and belittling ideas, one or two or more

men of mind, capable of conceiving, and heart capable of executing an enterprise so vitally important to State and people—an enterprise which would enable our men of energy and industry, of whom we still have so many in our borders to retrieve their fortunes, and with their own renewed credit and wealth, to reëstablish the finances and honest name of the Commonwealth of Virginia?

Some relief from the use of good money is what we require. To me, relief through bad money is so hopeless as to produce a sickening thought. Ten years of usurious interest has sapped the wealth of the producing population of the State, and dried up the resources on which the public credit rested. Ten years of usury, paid even for good money, will ruin any people desperate enough to try it; and it is a sorrowful spectacle to see any of our citizens turning their eyes from the chief cause of their ruin and trusting to repair their fortunes by paying a still larger usury for greater amounts of bad money. Better, far, no borrowing at all, than borrowing inflated money at inflated rates of interest. We are in the main an agricultural people, that class above all others which inflated money and its prices never help.

And it is precisely as an agricultural people, and

especially as producers of the export staples of tobacco, cotton, rice, naval stores, and grain, that the people of the South are the heaviest sufferers in the Union from a debased paper currency.

As the value of irredeemable money decreases and prices rise, it is observable that prices of different things do not rise equally nor at the same times, and some prices not at all; and this works invariably to the prejudice of the agricultural producer. Manufactured goods which agriculturists buy, are the quickest to rise, because manufacturers are on the alert and hasten to insure themselves by raising the prices of their goods. The wages of laboring men, however, are very slow to rise, because they are fixed for long periods of time and are very laggard in sympathizing with the fluctuations of prices. Real estate rises more slowly than anything else, because it is seldom held except as a permanent investment, and is the last thing its owner will sell under any temptation. But it is the agriculturist as a producer and seller who derives least benefit from the rise of prices resulting from an inflated currency, because the value of his produce is regulated by the price it commands at the places of export, and that price depends on what it commands in the foreign country to which it is shipped, where the price is

not at all affected by the inflation of money at home. Cotton, tobacco, wheat, naval stores, rice and like products which the producer has to sell, stand still during inflations at prices regulated by the foreign market, while all the articles which the producer buys command home prices measured in the inflated home currency. Thus the people of agricultural and planting districts gain no additions to the prices of their products from inflation and lose all the excess of prices occasioned by inflation.

Even this, however, is not the whole of the operation to the producer of staples whose prices are regulated by the export demand. The prices of wheat, cotton, tobacco, and other staple exports are fixed in London, Liverpool and Bremen. The prices in New York or Baltimore are the same, less all charges of shipment across the ocean. These prices are quoted in New York or Baltimore at gold rates. Now, when we have an inflated, depreciated currency in Virginia, either in the form of greenbacks or of State bank notes, then the gold quotations of prices of tobacco, wheat, and cotton in New York establish the rates for Virginia less the charges of domestic shipment; and the Virginia producer is paid those lower gold prices in the depreciated paper money current in Virginia. The

Virginia planter not only gains nothing from inflation on what he sells, but loses the difference between gold and the inflated paper currency, while he has to pay the inflated prices on everything which he buys.* Therefore, of all the classes of people in our great country the owners of the soil and producers of its export products are those whose anathema maranatha ought most fiercely to pursue the authors of irredeemable paper money.

Land itself gains nothing from inflated prices in paper money. After the inflation has been going on for a long time land will then begin to rise, and when the paper money begins to be distrusted will rise at a tumultuous pace; but this will not take place until it becomes unsafe to exchange land for the irredeemable paper at any price.

A specialist author has thus summed up the case against irredeemable paper money inflated into cheapness and abundance:

"It affects different classes differently, and the largest class more injuriously than all the rest. It raises some prices much, other prices little, and still other prices not at all. Some prices are raised quickly and pretty regularly, and other prices are

* I do not claim that this is accurately or absolutely true, but I do claim that it is approximately true.

raised slowly and irregularly; so that the shrewd ones always take advantage of the ignorant ones, and the dishonest ones of the honest ones. The whole trick of the thing is the trick of distribution. All classes of the people are ultimately great losers in wealth and reputation from the destruction of the stable measure of value—from disturbing the meaning of the word dollar. . . Farmers always have been, and always will be, the greatest losers from rag money, partly for the reason that they have to buy at the enhanced prices and sell at prices which cannot be enhanced by bad money; and partly because it takes the farmer almost a year to realize on his crops. . . The dollar in which he calculates the expenses of his crops is sure not to be the dollar in which he realizes the results of his crops."

After the farmer and planter, the next most important class in the South is the laborer—the negro laborer.

Of the laborer Daniel Webster said in the great currency debate of 1832–7:

"The very man of all others who has the deepest interest in a sound currency, and who suffers most by mischievous legislation in money matters, is the man who earns his daily bread by his daily toil. A

depreciated currency, sudden changes of prices, paper money falling between morning and noon, and falling still lower between noon and night, these things constitute the very harvest time of speculators, and of the whole race of those who are at once idle and crafty. . . But the laboring man, what can he hoard? Preying on nobody, he becomes the prey of all." . . . "A disordered currency is one of the greatest political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive to its happiness. It wars against industry, frugality and economy, and it fosters the evil spirits of extravagance and speculation. Of all the contrivances for cheating the laboring classes of mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man's fields by the sweat of the poor man's brow.

"Ordinary tyranny, oppressive, excessive taxation, these bear lightly on the happiness of the mass of the community, compared with fraudulent currencies and with the robberies committed by a depreciated paper."

How plain is all this to any one who will give the subject a few hours of dispassionate considera-

tion; and yet it is the laborer and the agricultural producer whom the Greenbacker relies upon as his most facile disciple and most loyal supporter.

How plain is all this, and how true are the words of Daniel Webster delivered in his speech on the Bank Bill in 1815, when, in the true spirit of an American, he thus stated the great principle upon which our American currency should rest:

"The circulating medium of a commercial community must be that which is also the circulating medium of other commercial communities, or must be capable of being converted into that medium without loss. It must be able not only to pass in payments and receipts among individuals of the same society and nation, but to adjust and discharge the balance of exchanges between different nations."

On these words hang all the law and prophets of sound finance. As all base money, whether metallic or paper, is alike injurious to any society which may be subjected to the infliction, it will not be inappropriate to quote here what Lord Macaulay says in the 21st chapter of his History of England of the distress to the industrial classes which resulted from the base coins that were at one time the principal currency of Great Britain; constituting

an evil so intolerable and so difficult of eradication, that it became necessary to employ the great intellect of Sir Isaac Newton, as master of the mint, for its correction.

Some conception of the sort of money which was in general circulation referred to by the historian, may be derived from the following facts:

"The officers of the exchequer weighed 57,200 pounds of hammered money, which had recently been paid in. The weight ought to have been above 220,000 ozs.; it proved to be under 114,000 ozs. Three eminent London goldsmiths were invited to send a hundred pounds each in current silver to be tried by the balance. Three hundred pounds ought to have weighed above 1,200 ozs. The actual weight proved to be 620 ozs. It was found that a hundred pounds, which should haye weighed above 400 ozs., did actually weigh at Bristol 240 ozs.; at Cambridge 203; at Exeter 180, and at Oxford 116."

It was of this state of things that Lord Macaulay wrote, in saying:

"In the autumn of 1695, it could hardly be said that the country possessed, for practical purposes, any measure of the value of commodities. It was a mere chance whether what was called a shilling, was really tenpence, sixpence or a groat.

"It may be doubted whether all the misery which had been inflicted on the English nation in a quarter of a century by bad kings, bad ministers, bad parliaments, and bad judges, was equal to the misery caused in a single year by bad crowns and bad shillings.

"The evil was felt daily and hourly, in almost every place, and by almost every class; in the dairy and on the threshing-floor; by the anvil and by the loom; on the billows of the ocean and in the depths of the mine.

"Nothing could be purchased without a dispute. Over every counter there was wrangling from morning to night. The workman

and his employer had a quarrel as regular as Saturday night came round. On a fair-day or a market-day the clamors, the reproaches, the taunts, the curses were incessant, and it was well if no booth was overturned and no head broken. No merchant would contract to deliver goods without making some stipulation about the quality of the coin in which he was to be paid. Even men of business were often bewildered by the confusion into which all pecuniary transactions were thrown. The simple and the careless were pillaged without mercy by extortioners whose demands grew even more rapidly than the money shrank. The price of the necessaries of life, of shoes, of ale, of oatmeal, rose fast. The laborer found that the bit of metal which, when he received it, was called a shilling, would hardly, when he wanted to purchase a pot of beer or a loaf of bread, go as far as sixpence.

"Where artisans of more than usual intelligence were collected in great numbers, as in the dockyard of Chatham, they were able to make their complaints heard and to obtain some redress; but the ignorant and helpless peasant was cruelly ground between one class which would give money only by tale, and another which would only take it by weight."

Thus the past history of base money, as well as the present, proves that it is the poorer and yeomanry classes who chiefly suffer from its use.

CHAPTER TENTH.

THE ISSUING OF A REDUNDANT PAPER CURRENCY UNSETTLES PRICES AND SUBVERTS THE NATURAL COURSE OF TRADE—THE PROPOSED INTERCONVERTIBLE BOND, WITH THE INTEREST WHICH IT MIGHT CARRY, COULD NOT AVERT OR EVEN MODIFY SUCH AN EFFECT OF THE ISSUING OF GREENBACK NOTES.

MR. GULLIVER, in the interesting account which he gives in his voyage to Laputa of his visit to the Academy of Lagado, does not represent himself as entering into controversy with any of the remarkable philosophers of that learned institution—not even with the professor "who had been eight years upon the project of extracting sunbeams out of cucumbers, which were to be put in vials, hermetically sealed, and let out to warm the air in inclement summers;" nor yet with "the ingenious architect who had contrived a new method for building houses by beginning at the roof and working downwards to the foundation;"

nor with any of the other like projectors of the novel schemes which are described by the renowned traveller in that marvellous voyage.

The picture which he gives of the desolation of Lagado, resulting from the rule of men whose only principle of action was change, and whose only passion was for extravagance in everything, renders the fourth and fifth chapters of that most curious of Mr. Gulliver's histories peculiarly instructive to our own people of Virginia, now that she is cursed with the imputation of repudiation, and brought into derision by the giddy oratory of Greenbackers.

It is necessary to discard the reserve of Mr. Gulliver in dealing with the project of this new party; and I propose in the present chapter to show, more specifically than heretofore has been done in this volume, why that scheme is delusive and must prove pernicious.

Let me, in a few preliminary paragraphs, deal with the fundamentals of the subject of money. Money is the correlative of price. If you exchange for each other articles which are not money, price is not involved. If you exchange any article for money, then price becomes an element in the transaction. Price, money, enter as elements into all the transactions of mankind in which one article of com-

merce or contract is not exchanged for another such article. Now, it is found in the actual experience of mankind that the quantity of money needed by a community is not near so great as the value of the entire property of that community; and all writers agree that, owing to the infinite, minute and ever changing variety of transactions in a community, the quantity of money required for its needs cannot be accurately predicated. But all agree that it may be approximated with some accuracy; and Mr. Calhoun, who gave much attention to this sort of study, and this particular subject, concluded after an extensive examination, that, at the rate of prices prevailing in these times, the quantity of money required for the business of a country does not exceed about three per cent. of the gross value of that country's property.

But it is quite unnecessary (as it would be impracticable) to fix this quantity. It depends of course, in material part, on the rate of prices. Now, prices are never established artificially; that is to say, the prices of property, measured in real money, can never be determined by convention. They are regulated by the operations of Nature and the laws of trade. The price of a commodity of commerce depends ultimately (though it is often affected by

local circumstances) upon the quantity of that article for sale in the world, compared with the demand for it; and with the quantity of real money of the world which is applicable to the handling of it. Prices are regulated by the relative quantities of property and of money in the world, and by the demand. Of course, monopolies, embargoes and tariffs modify the rule in different localities; but yet, these being left out of consideration, the general truth is as stated.

Say, for illustration, that in 1878, the general range of prices, expressed in gold and silver, is so and so. Suppose that, in the ensuing ten years, an addition of fifty per cent. is made in the quantities of these two metals in the world, and that the quantities of property and all other things remain nearly the same—then the general range of prices in the world would be fifty per cent. higher in 1888 than they had been in 1878. This is not conjecture or speculation. The history of prices and of the precious metals in past eras demonstrates that, if it be not accurately true, it is substantially true.

Therefore, prices expressed in real money are, so far as mankind is concerned, automatic. Nature is the regulator of them. She sets men to work in all the various industries of the earth, producing

things of value in great quantities and variety. And she sets them to work also in the mining of the precious metals. These latter are not consumable, and do not perish, except in a small percentage; but most of the other products of human industry are annually consumable, and are perishable. Thus there is no danger of an undue dearth of real money—gold and silver—in the world at large, while there is at times destitution and famine in respect to other products. Providence no more deprives the human race of enough money to carry on its trade and industries than it deprives it of air and water and of a globe to inhabit. And those nations which, at any time, are without enough real money for their rightful purposes, invariably have lost it by improvidence and folly. This loss more frequently results from the use of base money than from any other cause, for it is a peculiar law of finance, so peculiar that we may regard it as a law of Nature or Providence, that the use of base money by any community drives real money, gold and silver, out of the community; introducing derangement into all its commercial and industrial operations, and filling it with pestilent theorists clamorous for expedients which only make confusion worse confounded. But whatever be the

source of this law of finance, whether divine, or human, or infernal, it is, nevertheless, a stern, fixed, law, that whenever a nation prefers a money of its own contrivance to the real money which is furnished to mankind by the great banker, Nature, that new money, being baser than Nature's good money, drives the latter out of circulation, and thus renders the nation a prey to the entire swarm of evils engendered of base money.

The grand operations of Nature thus produce property and money in quantities better ordered and adjusted than man or human government could order them by any intellectual or artificial effort. The quantity of property and the quantity of money in the world being thus determined by Nature, a certain range of prices results under the operation of the laws of trade. Seeing, as before shown, that there never can be a dearth of money in the world at large, as compared with the quantity of property, no nation can lose its proportional share of the money of the world belonging to it as determined by its property and the range of prices resulting from natural laws, unless, by some abnormal act of its own, in violation of the laws of Nature, of trade, and of finance, it drives this money beyond its borders. I repeat, that Nature or Providence, as if

to punish the conceit and presumption of those men and nations who violate the normal laws of trade on this subject, has established a law of finance peculiar to money and existing with reference to no other substance whatever (called in England Sir James Gresham's law) namely, that the use of a base money by any nation, inevitably and invariably drives out the good money, a full share of which that nation would otherwise as surely have and retain, as it would the vernal rains, the summer sunshine, the autumnal harvests, and the winter frosts.

I need not enlarge further on this interesting and fruitful topic. The reader is prepared from the little that has been said, to understand the effect of introducing paper money into the system of economy established by Nature in any nation. I will premise that so far as paper money is used merely as a representative of real money to save the actual handling of heavy precious metals actually existing, its introduction can have no appreciable effect upon the monetary system of a nation, or of the world. I will go even farther and add, that recollecting what was before stated in this volume, that the quantity of gold and silver money in the world is at least ten thousand millions of dollars; the introduction of a few millions (possibly of a few hundreds of

millions) of dollars of redeemable paper money into the grand aggregate would not have a sensibly disturbing effect upon prices in the world at large, under the automatic operations of the laws of Nature and of trade.

But the case would be different in single communities or nations. It is plain that the introduction of an abnormal, artificial money like paper, in any considerable amount in any one country, must cause a serious disturbance in that country, of the relation which Nature had established there between its property and money expressed by price; and that this disturbance would be greater in proportion to the amount and irredeemability of the paper money introduced. It must be obvious, generally, that the introduction in any large quantity, of paper money, into the economy of prices established anywhere by Nature, is an eccentric, disturbing, revolutionary, subversive proceeding, tending to entail manifold injury upon society, which will be greater and more disastrous according as the amount of the paper issue be itself enormous or extravagant.

By reason of the great volume of money in the world at large, such a proceeding might not produce any appreciable effect outside of the particular country in which the paper is issued; yet it must

be borne in mind that the issue of paper money in any one country proportionally swells the aggregate of metallic money elsewhere, inasmuch as the local issue drives out of that country into the world at large the gold and silver which the base paper money locally displaces. The issuing of a base currency is therefore, in principle, a crime against the welfare of nations; though it is true that the evil effect of the act is likely to be felt only at home in any intensified and aggravated degree.

Thus the philosophical objection to paper money is, that its issues are not regulated by Nature, but are made at the will and caprice of short-sighted and selfish man; that the steady, stable, disinterested ordination of Nature in establishing the relations of property and money expressed by price, is substituted by the weak and blind contrivance of man; that the normal and natural relations of money and property are upset, and unhealth, fever and fitfulness introduced, where before there were the order, stability and repose characteristic of all of Nature's arrangements.

The genuine Greenbacker would wholly abolish gold and silver as money, and would absolutely, may I not say impiously, repudiate the beneficent agency of Nature in regulating the relations of prop-

erty to money, and of society to both, and I cannot help looking with pity and sorrow upon that unspeakably weak invention—the interconvertible bond—which is proposed as a regulator of money and prices as a substitute for Nature. It cannot help out the problem of paper money to interpose the complication of a bond and of interest instalments payable upon it. If interconvertible, the bond will be the equivalent in all respects of the circulating notes exchangeable for it, and the problem remains the same in substance, differing only apparently in form. If a person's system is to be dosed to death with opiates, it matters but little whether the drug be administered in the liquid form of laudanum or the solid form of opium.

The theory of the interconvertible bond scheme is to leave prices to regulate the quantity of money in circulation; it being supposed that if money becomes so redundant as to inflate prices, the excess will go automatically into the bonds; and, *vice versa*, if it becomes so scarce as unduly to depress prices, the bonds will of their own accord resolve themselves into money; all of which is a thing undreamt of in finance until this inventive age. The fallacy of the scheme consists in supposing that prices will regulate the quantity of money in circulation; whereas all expe-

rience teaches that the higher that prices rise in a base currency, the greater will be the tendency to overissues of that currency. The law of finance is quite different from that on which this scheme is predicated. Given the quantity of property in the markets, and given the quantity of money in circulation; and then price is the result automatically evolved from the two data by the laws of trade; price being essentially a mere result and never a factor. But to say that price shall be one of the data (property being the other,) from which the quantity of money springing into circulation will be evolved by operation of the laws of trade, is like saying—given one parent and given the offspring, and then the other parent will spring into life from putting the two given data together. Philosophically the scheme is absurd.

Practically it would be a ridiculous failure. If the interest paid by Government on the interconvertible bond were too high, the currency would convert itself too much into bonds, and gold and silver being banished, the scarcity of money and contraction of the currency would be disastrous; while the Government would be needlessly burdened with an evil-working interest. If the rate of interest were exactly hit upon at which it would become a

matter of indifference to the holder of the paper whether it were in the form of currency or bonds, then there would be nothing to stimulate him to convert them one way or the other, and the bond would be a torpid affair. If, finally, the interest on the bond were put down as low as, say three per cent., then there would be no demand for the bonds until the currency and bonds were so depreciated as that a principal and premium at the nominal rate of the three per cent. paid by the Government on its face value, would together produce the market rate of interest on a hundred dollars of good money. Thus, if the market rate of interest on good money were 12 per cent., then four hundred dollars in currency and bonds would be equivalent in the amount of interest produced to one hundred dollars of good money or property. If 9 per cent. were the market rate of interest, then three hundred dollars of the base paper would be required to make up a hundred dollars of market interest. And, in general, before the process of conversion could take place the base currency would have to depreciate to a point at which a sufficient amount of it at 3 per cent. would have to be converted to yield the market rate of interest commanded by a hundred dollars of good money, whether that rate were 6, 9, 12 or other per cent.

The effect of this continual tendency to the equation of interest between that of the depreciated bonds carrying low interest on one hand and business paper carrying market rates of interest on the other, could not fail to depress the market value of the bonds themselves to a disastrous extent.

The prices established by the natural relations of property to good money, under the laws of trade, remain fixed beyond the reach of change by the art or artifice of man, and the base paper money or bonds proposed would take a debased value, proportioned inversely to the amount of them put in circulation, and there would be no power in the interconvertible bond to regulate the paper issues of which itself would be a part. The wretched bonds and the still more wretched currency would alike be commodities of commerce, would be only nominally and not really money, and would be regulated in value or price by the laws of demand and supply; helpless subjects of those laws and not masters; neither of them being able to help or support the other; and, like the blind leading the blind, both falling into the ditch together.

The introduction of bonds into the problem of a debased, irredeemable paper money, I repeat, would avail nothing; nor would the introduction of inter-

est into the same problem avail aught. The problem would remain the same, with or without the bonds; and the country would be afflicted with all the evils of an artificial money regulated by the vain contrivance of man, disturbing and probably subverting the great laws of trade established by the ordination of Nature, the only true, wise and sound banker known on the earth.

But I will pursue the subject no further. The greenback craze is no new thing under the sun. The wild notions about paper money now prevalent among the unread in this country cannot fail to meet here the fate which they had in France on more than one occasion in French history, and which they had in England even more frequently than in France. It raged, very much in its present phase, in England in the time of William and Mary, and is thus described by Macaulay:

" Preëminently conspicuous among the political mountebanks, whose busy faces were seen every day in the lobby of the House of Commons, were John Briscoe and Hugh Chamberlayne. These men affirmed that the one cure for every distemper of the State was a Land Bank. A Land Bank would work for England miracles such as never had been wrought for Israel; miracles exceeding the heaps of

quails and the daily shower of manna. There would be no taxes, and yet the exchequer would be full to overflowing. There would be no poor-rates, for there would be no poor. The income of every land-owner would be doubled. The profits of every merchant would be increased. In short, the island would, to use Briscoe's words, be the paradise of the world. The only losers would be the moneyed men, those worst enemies of the nation, who had done more injury to the gentry and yeomanry than an invading army from France would have had the heart to do.

"These blessed effects the Land Bank was to produce simply by issuing enormous quantities of notes on landed security. The doctrine of the projectors was that every person who had real property ought to have, besides that property, paper money to the full value of that property. Thus, if his estate was worth two thousand pounds, he ought to have his estate and two thousand pounds in paper money. Both Briscoe and Chamberlayne treated with the greatest contempt the notion that there could be an over-issue of paper as long as there was, for every ten-pound note, a piece of land in the country worth ten pounds. Nobody, they said, would accuse a goldsmith of over-issuing

as long as his vaults contained guineas and crowns to the full value of all the notes which bore his signature. Indeed, no goldsmith had in his vaults guineas and crowns to the full value of all his paper. And was not a square mile of rich land in Taunton Dean at least as well entitled to be called wealth as a bag of gold or silver? The projectors could not deny that many people had a prejudice in favor of the precious metals, and that therefore, if the Land Bank were bound to cash its notes, it would very soon stop payment. This difficulty they got over by proposing that the notes should be inconvertible, and that every body should be forced to take them.

"The speculations of Chamberlayne on the subject of this currency may possibly find admirers even in our own times. But to his other errors he added an error which began and ended with him. He was fool enough to take it for granted, in all his reasonings, that the value of an estate varied directly as the duration. He maintained that if the annual income derived from a manor were a thousand pounds, a grant of that manor for twenty years must be worth twenty thousand pounds. If, therefore, the lord of the manor would pledge it for a hundred years to the Land Bank, the Land Bank

might, on that security, instantly issue notes for a hundred thousand pounds. On this subject Chamberlayne was proof to ridicule, to argument, even to arithmetical demonstration. He was reminded that the fee simple of land would not sell for more than twenty years' purchase. To say, therefore, that a term of a hundred years was worth five times as much as a term of twenty years, was to say that a term of a hundred years was worth five times the fee simple: in other words, that a hundred was five times infinity. Those who reasoned thus were refuted by being told that they were usurers; and it should seem that a large number of country gentlemen thought the refutation complete.

"In December, 1693, Chamberlayne laid his plan, in all its naked absurdity, before the Commons, and petitioned to be heard. He confidently undertook to raise £8,000 on every freehold estate of a hundred and fifty a year, which should be brought, as he expressed it, into his Land Bank, and this without dispossessing the freeholder. All the Squires in the House must have known that the fee simple of such an estate would hardly fetch £3,000 in the market. That less than the fee simple of such an estate could, by any device, be made to pro-

duce £8,000 would, it might have been thought, have seemed incredible to the most illiterate fox-hunter that could be found on the benches. Distress, however, and animosity had made the landed gentlemen credulous. They insisted on referring Chamberlayne's plan to a committee; and the committee reported that the plan was practicable, and would tend to the benefit of the nation. But by this time the united force of demonstration and derision had begun to produce an effect even on the most ignorant rustics in the House. The report lay unnoticed on the table, and the country was saved from a calamity compared with which," etc., etc.

The Greenbackers of our day are the lineal descendants of the Chamberlaynes of the period of William and Mary. But their scheme has played its brief hour upon the stage, and will soon disappear forever from sight; to give place in popular favor to some other folly, more novel if not more infatuating.

Its fate with the gullible public (to borrow a simile of Fonblanque), will be like that of the new doll of the little girl about to enter her teens, possessing great resources of affection mingled with a natural modicum of prying curiosity; who treats her doll as a living creature, dandles and fondles it,

gives it the air, dresses and undresses it, and puts it to bed. Some unlucky day, however, she espies a little of the bran oozing out of the doll's valued form; curiosity is set to work—how is it made, is the question—research begins—the opening in the seam of the puppet is increased, the stuffing pours out, and the plump and specious form of the idol is reduced to a trumpery piece of sewed leather, turned inside out, and cast with contempt away.

But the public are apt to be less amiable and more truculent with the authors of great deceptions. Sometimes they turn with ferocity from the humbug which they have tolerated, been amused with, but have finally despised, to the unfortunate authors of it who have plotted to deceive them. Woe, then to the men who have incurred their indignation. They are like Blue Beard in the Fairy Book, whose manner of dealing with the wives of whom he grew tired is thus curtly described:

> Some husbands, soon after the wife plays the fool,
> Will argue the point with her calmly and cool;
> But our Bashaw, not relishing means of that sort,
> Cuts the woman as well as the argument short.

CHAPTER ELEVENTH.

THE MONEY OF THE CONSTITUTION—THE POWER OF CONGRESS OVER THE SUBJECTS OF MONEY AND LEGAL TENDER.

IF we would know what was money in the United States when the Constitution was adopted, and what, therefore, is so still, except as affected by the brief and simple clauses of the Constitution relating to that subject, we must go to the law of the mother country and of the colonies as it was at the time of the Declaration of Independence in 1776.

It was a principle of the law of England that all mines of *metalla vera* and all treasure trove belonged to the king by virtue of his royal prerogative. The curious reader will find the law of the subject most thoroughly discussed and settled in the great case of The Mines, in Plowden's Reports (p. 316), which was decided early in Queen Elizabeth's reign. The metals out of which lawful money was coined in England belonged of right to the king wherever found in mines or lying abandoned without owner.

The old laws enumerated and knew only seven

metals—namely, gold, silver, copper, tin, iron, lead, and brass. It divided these into two classes, *metallum legale sive verum, et metallum illegitimum sive falsum.* Gold and silver constituted the first class of "true and legal metals;" and the other five the "false and illegal" metals; the metals being so characterized of course only with reference to the coining of them into money. Not only were gold and silver the only true money, but they, and they only, were legal-tender. By the act of 20 Edward 1, *de demissione denarium*, in Lord Coke's language, "It appeareth that no subject can be enforced to take in buying and selling or other payment any money made but only of lawful metal, that is of silver and gold." See 2d Institute, 577.

And an act of 3 Henry, VII., made the coining of money out of base metals, and the false alloying of money treason. Even the king was forbidden by the common law to coin money of any metal but gold and silver; for the Mirror of Justice, one of the very oldest embodiments of that law, treating *Des articles per veiels roys ordeins*, saith thus: *Ordein fuit que nul roy de cest realme ne poet changer sa money, ne impairer, ne amender, ne auter money faire, que de ore ou d'argent, sans l'assent de touts ses countis;* that is, without the assent of Parliament.

Thus the common law forbade even the king to coin money of other material than gold and silver; and I venture to affirm as the result of some research that from the time whereof the memory of man runneth not to the contrary, down to the period of American independence, it required the full exercise of the plenary sovereignty of King and Parliament to make money of any other thing than the two precious metals; and that no such power was ever exercised except for the passage of temporary laws.* So that gold and silver remained the only money of the British realm and of the British colonies at the time the latter became independent. This proposition is important as indicating the condition of the law derived from the colonies by the American States at the time that the Constitution of the United States was framed.

Notwithstanding the prohibition given in the *Mirror*, it seems that under the Henrys the prerog-

* The colonies, for example did occasionally and temporarily, and from necessity, and contrary often to express act of Parliament, in the absolute destitution of all lawful money, enact that commodities, such as tobacco in Virginia, might be used as a medium of exchange, and for the settlement of estates under express contract. It is also true, that the States, after independence, and before 1787, from the same necessity, authorized paper money for temporary periods. But I do not think that the legal tender function was given to such commodities.

ative of coining gold and silver was extended to debasing the money without opposition or question by Parliament. See Broom's Constitutional Law, pages 261 and 286. That is to say, the prerogative power of the king to coin gold and silver and to regulate the value of money so coined was abused by greedy or dishonest kings to degrading the coin with base alloys.

Such then was the condition of the common law in England and her American colonies at the date of the independence of the latter, except that by an act of Parliament passed in 1774, it was provided that the receiver of silver coins to a larger amount than twenty five pounds sterling (about $125) might estimate their value by weight and not by tale or the nominal value of the pieces. This was not a law demonetizing silver coins, as some have loosely claimed, but it only provided that they should be a tender for greater sums than that named, by weight only, and not by count. In fact, for centuries before that law, silver had been practically the only currency of the kingdom, America not having been discovered, *montes auri pollicens;* and even at that date silver was the principal currency.

It thus appears, that in the United States, at the period of declaring their independence, and at the

time of framing the Constitution, gold and silver coins were the only lawful money of the country having the function of legal tender; and the language used in that instrument was employed, and must be construed with strict reference to the legal and historical status of gold and silver at the time. So construed, it will be seen, that there is no room for the supposition that the Constitution intended to confer upon Congress the power to do more than coin gold and silver into money, to regulate the value of the pieces so coined, and to declare the value of foreign coin.

In the fifth clause of the eighth section of the first article, it gives to Congress power "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." In the first clause of the tenth section of the same article it restricts the power of the States over the subject by the provision declaring that "No State shall . . . coin money, emit bills of credit, [or] make anything but gold and silver coin a tender in payment of debts."

It will be observed that this language gives to Congress the exclusive power of coining money; but that it leaves to the States, jointly with Congress, the power to regulate the value of foreign

coins, and leaves to them also the power which they before had of continuing to allow or give to gold and silver coins, wherever coined, the functions of legal tender.

It is plain, therefore, that the Constitution confers no power upon Congress to create money unless it be conveyed in the power granted "to coin money;" for the national government is not one of implied powers, but is limited those expressly given to it. It possesses no powers but such as are expressly granted by the Constitution; or such as are referred to in the eighteenth clause of the eighth section of the first article of that instrument, giving it power "to make all laws which shall be necessary and proper for carrying into execution" the powers expressly granted. This subsidiary power is one which, in respect to the coining of money, would authorize Congress to erect mints, buy the requisite machinery and chemicals, and employ the proper officials for coining money; and nothing more.

What, then, is the full scope of the words "to coin money." Obviously they refer only to such "money" as admits of being "coined;" that is to say, metallic money. Paper money is not in fact money, it is only the promise to pay money. The

greenback notes of the United States do not, themselves, purport to be money; they are in terms and tenor nothing but promises to pay money; and they necessarily imply that something else is money, and that they are not themselves that something else. They are neither money itself, nor can the word coin apply to them.

The Constitution confers no power upon Congress in regard to money, therefore, but to coin it out of the metals out of which money was legally made at the time it was adopted; to regulate the value of the metallic money so coined—that is to say, to fix the fineness and define the denominations of it, and to regulate the value of foreign coin. To "coin money," to regulate the value of the "money" "coined," and to regulate the value of foreign "coin" are the sole powers given to Congress by the Constitution in regard to money. And it is plain to every candid comprehension that nothing but metallic money was in the minds of the framers of the Constitution in using the word money so exclusively and in such close connection with the correlative, "coin."

Now this power to coin metallic money out of the metals then used as money by the world does not carry with it the power to deprive either of such

metals of its character as money. The power to "regulate" the value of coins does not embrace or imply the power to destroy that value. This is a conclusion resulting from reason, and it is supported by that clause of the Constitution which leaves to the States the power to make gold and silver a legal-tender. It would have been monstrous for the wise men who framed the Constitution to have given to Congress, in the power to "regulate," the power to destroy, gold and silver as money, at the same time that they denied to the States the power to make anything but gold and silver legal-tender. The States cannot demonetize either gold or silver; they are prohibited from making anything but "gold *and* silver" legal-tender, and Congress is entrusted with no other monetary power but to coin money out of the precious metals; to regulate the value of its own coinages, and to regulate the value of foreign coins. Congress can only regulate; it cannot demonetize; whatever is money in the United States is money independently of Congress, and the States can make legal-tender of no "thing" but "gold *and* silver."

It would seem to result from this construction of the Constitution that the entire power of Congress in respect to coins foreign and domestic, is

exhausted in providing for the coinage of gold and silver into American denominations of money, and in establishing by law the fineness and nominal value of American coins. The power of making this or that class of gold or silver coins legal tenders is not given to Congress. The power belonged to the States by the common law. It is left with the States. Gold and silver coins of every class would seem to be legal tender by force of the common law; and it would seem that their values only were left to the determination of Congress. It would seem also that Congress virtually fixes the value of all coins by determining the fineness of American coins and the value of the American dollar. Congress, by its present legislation, has determined a gold dollar to be 25 8-10 grains of gold nine-tenths fine; and a silver dollar to be just sixteen times as much silver, or 412½ grains of silver nine-tenths fine. It has determined that a gold dollar shall contain nearly 22¼ grains of pure gold, and the silver dollar 371¼ grains of pure silver. So that it would seem to follow that all gold and silver coins are legal tender in this country by weight, as compared with the American gold and silver dollars which are made standards by Congress. I am strongly inclined to believe, for instance, that

the trade dollar is legal tender by weight, and that it would be decided to be legal tender either for a dollar of 412½ grains or for 420-412ths of a dollar if the question were brought to judicial decision.

Passing now from coins to money of other material, if there be such money, we come to the inquiry whether Congress has power to confer the legal-tender function upon money manufactured out of other substances than gold and silver. In England the king was forbidden by common law to coin money out of any base metal, and the subject who did so, or falsely alloyed legal metals, was held to be guilty of treason. And therefore it was probably treason in all the colonies to violate this prohibition of the common law up to the date of their independence; though it is possible that the States between 1776 and 1787-9, had by special statutes changed the offence into felony. At any rate, the Constitution of 1787 forbade the States from making any other "thing" but gold *and* silver legal tender, and gave no power to Congress to do so in any of its clauses relating specifically to money.

The power of Congress to make paper promises to pay money a legal tender must, therefore, be derived, if derived at all, from some other clauses of that instrument. The reader is, accordingly

prepared to believe the statement which I now come to make, that the supreme court of the United States in 1869 (Hepburn *vs.* Griswold, 8 Wall., 603), decided that there was "no express grant of legislative power in the Constitution to make any description of credit currency a legal tender in payment of debts." In its later decisions in 1870 (the legal-tender cases, 12 Wall., 457), in holding that certain acts of Congress, passed in 1862 and 1863, declaring certain paper issues made for carrying on the civil war to be a legal tender as to debts existing before as well as after their passage, were constitutional, that court based its decision solely on the ground that it was competent for Congress in carrying on a war, to exercise all the powers which, in its own judgment, were necessary and proper for doing so, and that under this power and under this power only, had it been competent for Congress to make its paper issues a legal tender.

Such, as the decision of the Supreme Court of the United States, is the law of this country. Congress has no power to make any other "thing" legal tender but gold and silver, except that in time of war, as a necessary means for carrying it on, it may make some other thing legal tender.

It is useless to quote the language of the Su-

preme Court in which it thus limits the right of Congress to make other currency than gold and silver a legal tender. Any person of any reading on the subject knows of the limitation. And it follows as a necessary proposition that the redundant issue of a fiat paper money by Congress in time of peace, as proposed by the Greenback party, would be unconstitutional, and could not be voted by any one who respects his oath to support the Constitution of the United States, until there should be an amendment of the instrument authorizing such a measure.

Subject to the necessities created by war, what was said by Mr. Albert Gallatin in 1831 is true, viz:

"As Congress has no authority to make anything whatever a tender in payment of private debts, it necessarily follows that nothing but gold and silver coin can be made legal tender for that purpose."

And just as true is what was said by Mr. Webster in his speech of December 1, 1836, as follows:

"Most unquestionably there is no legal tender in this country but gold and silver, either the coinage of our own mints or foreign coins, at rates regulated by Congress. This is a constitutional principle, perfectly plain and of the very highest importance. The States are expressly prohibited

from making anything but gold and silver a legal tender in payment of debts, and although no such prohibition is applied to Congress in express terms, yet Congress has no power granted to it in this respect but to coin money and regulate the value of foreign coins.

"The legal tender, therefore, the constitutional standard of value, is established and cannot be overthrown. I am certainly of opinion that gold and silver, at rates fixed by Congress, constitute the legal standard of values in this country, and that neither Congress nor any State has authority to establish any other standard or to displace this."

It was in accordance with this fact that the Supreme Court of South Carolina, in 1826, in McClarin *vs.* Nesbitt (2 Nott and McCord, 519), held that—

"The only legal tenders in this State are gold and silver, and they are so by virtue of the common law. At common law only gold and silver were legal tender. It was under that common law that, after the act of the Colonial Legislature of February 6, 1752, forbidding paper, gold and silver became such."

It is plain from these authorities that the only constitutional money of the United States, in time of peace, is gold and silver. The only money of the

Constitution is "coined money." Our national government as well as our state governments are hard money governments as to the legal tender function.

CHAPTER TWELFTH.

THE DEMONETIZATION OF SILVER.

IT is unfortunate that the defenders of honest money should be divided in counsels on the subject of silver at a time when the movement in favor of paper money is as formidable as it has become; yet it is the holders of bonds, a species of paper promises, who would subordinate silver to their paper debentures. And so, the battle between bonds and silver is only a special phase of the broader one between paper money and metallic money.

Tried by the principles dominating in London, New York and Boston, I shall be pronounced heterodox in what will be said in this final chapter; but the subject of the demonetization of silver far transcends in importance any that has arisen in the modern world, and I should be derelict to the duty of a public writer, if I did not advocate the right on this vitally interesting question as I understand it.

The year 1848 was an epoch in the political system of Europe and in the financial system of the

world. It was then that the French Revolu ͜on occurred which established a Republic in France. Though existing for a period in the form of an empire, conducted on the principle of courtirg by every means the popular favor, the Republ has now thrown off that disguise, and has pen .anently established itself in France. The disturbance resulting to the political system of Europe has been profound; and some of the greatest wars of history (though the briefest) have occurred in consequence, entailing immense national debts. More important still has been the system of huge standing armies which the disturbance has created and threatens to perpetuate; rendering necessary a steady increase of public indebtedness, and rendering impossible any diminution of it.

Its public indebtedness, continually increasing during a long period, has produced the gradual fall and final collapse of the Turkish Empire, still further unsettling the balances of power in Europe and placing on a war footing all countries between the Neva and the Nile. The failure of the Treaty of Berlin places all Europe on a *quasi* war footing.

At the close of the Napoleonic wars in the first part of the present century, the public debts of the world were of the following amounts:

PUBLIC DEBTS IN 1815–'20.

Great Britain	$4,510,000,000
Continent of Europe	2,850,000,000
American Republics	145,000,000
British India	145,000,000
Total	$7,650,000,000

In 1848, the year of the French Revolution, they were as follows:

PUBLIC DEBTS IN 1848.

Great Britain	$4,100,000,000
Continent of Europe	3,733,000,000
American States and Colonies	572,000,000
British India	250,000,000
Total	$8,655,000,000

In 1875, after the civil conflict in the United States, and the several wars in Europe which preceded the recent hostilities between Russia and Turkey, the debts had risen to the following amounts:

PUBLIC DEBTS IN 1875.

Great Britain	$ 3,875,000,000
Continent of Europe	13,863,000,000
America	3,874 000,000
Asia	657,000.000
Australasia	243,000,000
Africa	377,000,000
Total	$22,889,000,000

If we add to this aggregate for the Russo-Turkish war of 1877 and for the usual increase of already existing debts since 1875, the sum of

eleven hundred millions of dollars, we shall have as the grand total of the public debts of the world at this time the inconceivable sum total of twenty-four thousand millions of dollars.

These statistics are taken from a recent number of the *Westminster Review*,* and are less than the amount given in Fawcett's work, "Gold and Debt," whose table of the public debt of all countries (other than the United States) shows an aggregate of $23,400,000,000 as of 1876.

Assuming the first statement to be sufficiently true, if we add the debts of the railroads of the world we shall have a still more appalling sum. The statistics of railroads given by Fawcett and by Poor, show that the indebtedness of the railroads of all countries in 1875 was five thousand millions of dollars. It is scarcely less now than six thousand millions, though much of it is hopelessly worthless.

Municipal debts (State, city, county, and town,) and those of corporations of a public character other than railroads, would still further swell the grand aggregate by several thousands of millions of dollars; so that Mr. Fawcett's statement of all those for 1875, amended for 1878, would be as follows:

* For January, 1876.

PUBLIC DEBTS IN 1878.

National debts	$24,000,000,000
Railroad debts	6,000,000,000
Municipal debts, etc	5,000,000,000
Total	$35,000,000,000

The annual and semi-annual payment of the interest on this immense debt of thirty-five thousand millions of dollars imposes a tax on human labor to the amount of at least seventeen hundred and fifty millions of dollars each year, which is probably more than mankind can bear. These public debts are heaviest in Europe, and will continue to drive a large emigration to this country.

But it is in respect to the owners of this immense mass of debentures that we have most to do in the present discussion. It is easy to conceive how deeply they are interested in the question, What shall be the money of the world? What shall be the money in which the principal and interest of the funds which they hold shall be paid? The payment of this interest requires in these latter years a new use for money not before existing, and makes necessary an addition to, rather than allowing a diminution of, the volume of money in use among nations.

The financial significance of the year 1848 consists in the fact that it was then that the gold mines

of California were discovered. The result of this happy occurrence, and of the later discoveries of gold in Australia and of silver in Nevada, has been to augment by fully one-half, since that date, the world's stock of gold and silver available for use as money and in the arts. For a quarter of a century previous to that year, the stock of precious metals had been gradually diminishing, and all nations had suffered from the apparently slight, but still most distressing, contraction in volume of the world's money. The increase or inflation of this volume which then began, and which continued until within a year or two past, has produced a development of enterprise, industry, invention, production, and wealth in every form, wholly unprecedented in the previous career of mankind on the earth.

But the chief cause which produced this development, namely an increasing quantity of the precious metals, has ceased. The world is losing from its stock of gold, instead of adding to it. The annual production of gold is only two per cent. of the stock in existence, while the annual loss from abrasion, accident, and use in the arts, is two or three times greater. While human populations are increasing in number, gold is shrinking in quantity. The

volume of gold currency is contracting, and this contraction is operating, actively with other causes, in producing a universal depression of business. This depression is severer in Europe than in America.

The case with silver is but little better in fact, though, temporarily, it appears to be the reverse. The Comstock bonanzas of Nevada, yielded an immense supply of this metal for a few years, beginning with 1873; but they no longer turn out the excessive quantities which they did for a while; and it is now clearly shown by the statistics of the subject, that the annual production of silver does not greatly exceed the annual loss, from abrasion, accident, and use in the arts. The report of the Silver Commission, raised in 1876, which was submitted to Congress in March, 1877, by its chairman, Senator Jones, of Nevada, presents the fullest information on the subject and is an exhaustive discussion of the silver question. It is probably one of the most important documents ever submitted to a deliberative body on a subject of vital concern and world-wide interest. That report demonstrates that the present annual production of silver does not much more than supply the annual consumption of that metal. The average production of the United States annually during

the five years ending with 1875 was $23,800,000. (See silver report, p. 19.) It has since been greater, but the increase in the silver production is less than the falling off in the gold production; and the world's stock of specie (gold and silver together) is sustaining a positive decline in amount; and, compared with the increasing population of the world, a much more serious relative decline.

Mr. Fawcett estimates the present total annual production of gold at something less than ninety millions of dollars, and shows that the amount is decreasing. He estimates the consumption of gold in the world at one hundred and ten millions. So that there would seem to be an annual loss going on of at least twenty millions of dollars.

He states the total annual production of gold and silver in the world, say in 1874, to have been seventy millions of dollars; but the production has since materially declined. He states the annual loss from the stock of silver in America and Europe by consumption, shipment to Asia and other causes, at fifty-one millions of dollars; which indicates a gain of about twenty millions of silver; which less than compensates the annual loss of gold.

The general fact is that there is now constantly occurring a loss in the volume of gold in the world,

and no compensating gain in the stocks of silver; and that thus a very serious loss is occurring from the joint stock of the precious metals now doing service as money among the nations of the earth.

We may, therefore, extend the remarks of the *Westminster Review* concerning gold, to specie itself, including both the precious metals, when that periodical says with fearful purport:

"One of the things involved we hold to be the probable appreciation of gold; in other words, an increase in its purchasing power; and consequently, unless fresh discoveries are made, prices have seen their highest for many a long day, so that debts contracted in gold will, by reason of this movement (the writer had been referring to the great increase of national debts), tend to press more heavily on the borrowers, and it will be well if this pressure do not become in time so intolerable as to suggest, by way of solution, something like universal repudiation."

Recalling what in a former chapter was quoted from Sir Archibald Alison concerning the stimulating effects of an abundance and the impoverishing effects of a scarcity of the precious metals in the world, I will extract a few sentences from an able recent publication of Mr. Ernst Seyd, of London, author

of the latest standard work on bullion. Mr. Seyd says:

"Between the acquisition of treasure by Rome, to the Middle Ages, when Spain brought the immense metallic treasures to Europe, a period of fifteen hundred years elapsed. The effect on the civilization of the world is on record. The next great historical event, three hundred and fifty years later, was the discovery of gold in California and Australia. What that has done in multiplying commerce, including development of civilization, within the last thirty years, is under our eyes at present. It is idle to say other Californias will be discovered. The world has been sufficiently explored, and although other gold fields may exist they can only be in the icy North or the fever-breeding tropics, and therefore inaccessible to Europeans. On the contrary, the production of gold has declined by half.

"Mark, then, that what threatens to take place now—namely, the demonetization of silver—is an equally important and quite a new historical event in the opposite direction. If the balance is upset by one nation, and not restored by the international agreement of all, it is tantamount not only to an absolute destruction of more actual money than has accumulated within the last two hundred years, but,

beyond this, it would annihilate the use of the fresh supplies of silver from which commerce might benefit hereafter; and both the already increased population and their future increase enlarge the proportions of the abstraction in a still greater ratio."

Mr. Seyd has been discussing that transcendentally important modern question, the demonetization of silver. Practically, for two thousand years, the civilized and semi-civilized portions of mankind have used gold and silver together as the medium of exchange, and the measure and embodiment of values. The prices of all commodities used by civilized men have for all three centuries adapted themselves to the joint quantities of these two metals, which were in circulation, as money, in the world. Obviously, to deprive one of these metals of its character as money, is to change the basis on which prices have adjusted themselves, and create a convulsion more or less shocking to the commercial system of civilized nations. The tendency will be to make gold more valuable than it has always been by the proportion which the volume of gold alone has borne to the joint volume of both metals. What is this proportion?

Mr. Fawcett estimates the amounts of gold and silver in the several quarters of the globe, existing

in the form of money and bullion, as follows, in millions of dollars:

	Gold.	Silver.
Europe	$1,900,000,000	$2,000,000,000
N. America	175,000,000	100,000,000
S. America	75,000,000	250,000,000
Asia	300,000,000	4,000,000,000
Africa	250,000,000	350,000,000
Total	$2,700,000,000	$6,700,000,000

These figures doubtless approximate the true amounts, and indicate the gross amount of metallic money in the world to be about $9,400,000,000; in the proportion of nearly three of silver to one of gold. But inasmuch as only the quantities in Europe and America can sensibly affect the prices of property and commodities (which quantities, as just shown, are $2,150,000.000 of gold to $2,350,000,000 of silver) the effect of demonetizing silver in Europe and America would be to destroy half the metallic money of the two countries; and the tendency of such action, if there were no other than the metallic money left in use, would be to gold double the purchasing power which ought naturally and justly to belong to it. It would tend to double the debts of debtors and double the claims of creditors. I do not aver that such action would have that precise effect, but only that its tendency would be to produce it.

There are numerous causes which might modify the result; notably the existence of paper money.

England, to whom all the world is indebted (her own citizens owning her whole public debt), led the way, in 1816, in a great movement to make bonds more valuable, by passing an act of Parliament demonetizing silver for all payments exceeding forty shillings, or ten dollars in amount in Great Britain. And her influence in diplomacy and commerce has ever since been systematically exerted in the direction of inducing as many other countries as possible to follow her example.

In 1871, the Empire of Germany demonetized silver by a law which took effect in 1873. Up to that time Germany had been a debtor State. The indemnity of a thousand millions of dollars (five thousand millions of francs) which she had exacted from, and which had then been paid, by France, cleared off her indebtedness, and converted her into a creditor State. Germany is now a State out of debt; and Germans are large capitalists investing in the bonds offered on every bourse. Germany, in demonetizing silver, has converted three hundred and fifty millions of dollars of that metal, which she had held as money, into a commodity of commerce, and having no use for any more of it than so much

as may be necessary for small coins, has thrown the rest of the vast sum upon the markets of the world.

In 1873, the United States also adopted a system of law on coins in which was embodied a provision demonetizing the silver dollar, and demonetizing silver coins of less than a dollar for all payments exceeding five dollars in amount. Ours being not only a debtor country, but the only largely producing silver country in the world, such a measure struck Europe with surprise, but in February, 1878 Congress repealed its demonetizing legislation after long and exhaustive debate.

The effect of this joint action of Germany and the United States in 1873 may well be imagined. It not only cheapened silver and elevated the price of gold; it not only depressed all prices and produced distress in all the walks and depression in all the channels of commerce, but it seriously disturbed the basis of prices throughout civilized nations.

Mr. Seyd remarks on this subject:

"What the prospect of the future involves on all sides in lessening the means of executing contracts, in suppressing industry, in lowering prices, in ruin to both debtors and creditors in time contracts,

in diminishing taxing power, in checking civilization, must be weighed in the full measure of the figures that have been exhibited on the subject. . . If the gold valuation is enforced, one of the most outrageous crimes upon humanity will be committed. Not only will the benefit derived from the golden gifts of nature, through California and Australia, the forty per cent. increase [of gold production,] with its produce of four hundred per cent. of enhanced commerce, be lost and counteracted, but the deduction will be far beyond the mere negative indicated thereby. The future gifts of nature in silver will cease to benefit mankind, and become a curse instead of a blessing. The progress of commerce and civilization has before it an almost boundless field, where it may step, accompanied by solid equivalents, faster at one time than at another, and it will so step in spite of preachers of financial morality. But when, by a wanton social crime of this kind, one of two factors is actually deducted from the advancement made, and prevented from assisting it in the future, it involves a defiance of the order of the nature of things which is equal only to the wanton destruction of one of two lives and all of its progeny.

"How far this is immediately applicable will

appear from the reflection that if the gold which has been added to the world's store since 1848 has so much advanced commerce, the new supplies of silver would also have a similar effect but for the fatality of its demonetization recently adopted. Hence we already find that business is bad; that commerce in England and elsewhere has fallen off seriously, and if that is but the shadow of the coming event, if only in two months after the balance is upset in Germany we find so rapid a decline in the value of silver, what must be the effect when the spread of the gold valuation receives further impulse, or its final development?"

Two years after this was written the United States retraced its steps; but as this country is but just fairly off the basis of irredeemable paper, there has yet been no positive effect from this action, except the moral one.

In regard to the respective standards, whether of gold or silver, or of both, prevailing among the different nations of the earth, the following is the condition of things:

The gold standard prevails in Great Britain and Ireland; the Australian colonies of England and New Zealand; the British possessions in Africa, and in most of the minor dependencies of the British

empire elsewhere. It also prevails in Egypt, Portugal, and several of the South American States, as Chili and Brazil; and is the nominal standard in the paper-flooded empire of Turkey. It was established in 1873 in Germany, and also prevails in Denmark, Norway and Sweden. Japan has likewise introduced a gold coinage as legal tender; but retains also her small silver coins.

The double standard is maintained in France, Belgium, Italy and Switzerland, which are the countries constituting what was known as the Latin Union. So also have Spain, Greece and Roumania the double standard. The United States of America were replaced in the same category by the legislation of February, 1878; and Peru, Ecuador, and New Grenada may be counted in that class.

There are left of the nations of Europe which adhere to the ancient standard of silver alone, the great empires of Austria and Russia. In association with the silver-standard nations are to be ranked the vast populations of India, China, Cochin China, the East Indian Isles, the portions of Africa not under British sway, (except Egypt,) Central America and Mexico.

Even in those countries where gold is the sole money of legal tender, silver coins are used for sub-

sidiary change; and the value of silver compared with gold is therefore fixed in them by law; and it is also of necessity so fixed in the countries having the double, as well as those having the silver standard.

This ratio of gold to silver is not uniform as fixed by the laws of different countries; and the following statement shows the different ratios established in most of them: France, Belgium, Switzerland, Italy, Spain, Germany, 1 of gold to $15\frac{1}{2}$ of silver; France no longer coining, however, at that rate.

Holland, Gt. Britain, Ireland, Portugal, 1 of gold to $15\frac{6}{10}$ of silver.

Austria, 1 of gold to $15\frac{9}{20}$ of silver.

Russia, 1 of gold to $15\frac{3}{10}$ of silver.

United States, 1 of gold to 16 of silver.

It thus appears (to make a brief digression), that the law of our country makes silver cheaper than it is in any of the other countries named. Yet our silver dollar is now (January, 1879), more than sixteen per cent. below the value of the silver dollar, estimated by weight at the market rate. Gold has probably somewhat appreciated, but the depreciation of silver is at least fifteen per cent.; and this large deficit in real value is at present made up by the legal tender *fiat* of the Government. Now this

fiat is legitimate, even upon the precious metals, only when used to cover those temporary and slight variations in their market value, which would otherwise occur under the influence of the law of supply and demand. But when the depreciation becomes considerable and permanent, the effect of the *fiat* is only to debase the coin, and a base coinage, as we have seen, is one of the most costly and afflicting evils that can befall a nation.

Under the able leadership of Col. Benton, the ratio of silver to gold was reduced in 1834, from Mr. Hamilton's ratio of one-fifteenth to one-sixteenth. The alternatives now presented to Congress would seem to be between demonetization or a reduction to some still lower ratio.* The only doubt is as to the

*Since the foregoing was written, the Secretary of the Treasury in his annual report for 1878, pp. xv, xvi and xvii, presents the same view in more force and detail, as follows:

"It was, no doubt, the intention of Congress to provide [in the act of February 18, 1878], a coin in silver which would answer a multitude of the purposes of business life, without banishing from circulation the established gold coin of the country. To accomplish this, it is indispensable either that the silver coin be limited in amount, or that its bullion value be equal to that of the gold dollar. If not, its use will be limited to domestic purposes. It cannot be exported except at its commercial value as bullion. If issued in excess of demands for domestic purposes, it will necessarily fall in market value, and by a well known principle of finance, will become the sole coin standard of value. Gold will be either hoarded or exported. When two currencies, both legal, are authorized without limit, the cheaper alone will circulate. If, however, the issue of the silver dol-

permanency of the depreciation. If it be permanent, the country cannot long afford to use a coin possessing by law, in large percentage, a fictitious, or merely *fiat* value; that is to say a base coin; for all the reasons which conspire to forbid a *fiat* paper money, apply to a base fiat coinage of either of the precious metals.

lar is limited to an amount demanded for circulation, there will be no depreciation, and their convenient use will keep them at par with gold; as fractional silver coin, issued under the act approved February 21, 1853, was kept at par with gold.

"The amount of such coin that can thus be maintained at par with gold cannot be fairly tested until resumption is accomplished. As yet paper money has been depreciated, and silver dollars being receivable for custom dues, have naturally not entered into general circulation, but have returned to the Treasury in payment of such dues, and thus the only effect of the attempt of the Department to circulate them has been to diminish the gold revenue. After resumption these coins will circulate in considerable sums for small payments. To the extent that such demand will give employment to silver dollars their use will be an aid to resumption rather than a hindrance; but if issued in excess of such demand they will at once tend to displace gold and become the sole standard, and gradually, as they increase in number, will fall to their value as bullion. Even the fear or suspicion of such an excess tends to banish gold, and, if well established, will cause a continuous drain of gold until imperative necessity will compel resumption in silver alone. The serious effects of such a radical change in our standards of value cannot be exaggerated; and its possibility will greatly disturb confidence in resumption, and may make necessary larger reserves and further sales of bonds.

"The Secretary therefore, earnestly invokes the attention of Congress to this subject, with a view that either during the present or the next session the amount of silver dollars to be issued be limited, or their ratio to gold for coining purposes be changed.

Returning from this digression, the quantity of gold and silver existing in the world in the form of money or bullion is estimated to have been in 1876, as follows; see Fawcett's work entitled "Gold and Debt:"

	Gold.	*Silver,* etc.*
Great Britain and Ireland....	$ 442,500,000	$ 80,000,000
France....................	650,000,000	350,000,000
Germany..................	380,000,000	370.000,000
Austria...................		200,000,000
Russia.....................	300,000,000	250,000,000
Italy......................		145,000,000
Spain......................		200,000,000
Sweden		70,000,000
Belgium...................		38,000,000
Switzerland...............		5,000,000
All other European States....		360,000,000
Europe....................	$1,872,500,000	$2,060,000,000
N. America................	175,000,000	100,000,000
S. America................	75,000,000	250,000,000
Asia......................	300,000,000	4,000,000,000
Africa....................	250,000,000	350,000,000
Grand Total............	$2,672,500,000	$6,760,000,000

"Gold and silver have varied in value from time to time in the history of nations, and laws have been passed to meet this changing value. In our country, by the act of April 2, 1792, the ratio between them was fixed at one of gold to fifteen of silver. By the act of June 28, 1834, the ratio was changed to one of gold to sixteen of silver.

* "It would, therefore, seem to be the best policy for the present to limit the aggregate issue of our silver dollars, based on the ratio of sixteen to one, to such sums as can clearly be maintained at par with gold, until the price of silver in the market shall assume a definite ratio to gold, when that ratio should be adopted, and our coins made to conform to it."

The tendency of the movement against silver that has been going on in London since 1816, and which has been so widely extended since then, as at this time, to have depreciated the value of silver probably as much as twenty per cent. is plainly to destroy its value as money altogether, and to reduce silver to the category of base metals. Thus to wipe out of existence six thousand millions of the world's stock of money, is the most daring revolutionary measure that has ever been undertaken since the commencement of civilization. If persisted in, the values of all property would be ruinously depreciated; money would be more than doubled in value; prosperity would disappear from among nations; poverty would be spread over all the earth;

For more than a century the market value of the two metals had varied between these two ratios, mainly resting at that fixed by the Latin nations, of one to fifteen and a half.

"But we cannot overlook the fact that within a few years, from causes frequently discussed in Congress, a great change has occurred in the relative value of the two metals. It would seem to be expedient to recognize this controlling fact—one that no nation alone can change—by a careful readjustment of the legal ratio of coinage of one to sixteen, so as to conform to the relative market values of the two metals. The ratios heretofore fixed were always made with that view, and, when made, did conform as near as might be. Now, that the production and use of the two metals have greatly changed in relative value, a corresponding change must be made in the coinage ratio. There is no peculiar force or sanction in the present ratio that should make us hesitate to adopt another, when, in the markets of the world, it is proved that such ratio is not now the true one. ."

and none would be enriched but the holders of money and of bonds. Even bondholders would as a class be losers; for human industry could not support the already enormous debt which would be virtually doubled in amount by the destruction of more than half the world's stock of money. There would thus arise the necessity of substituting paper money for the silver which had been discarded; and so, it appears plain, that the war upon silver money, is really a war in the interest of enormous issues of paper money.

The statistics show that already about two thousand millions of dollars of paper money are now in circulation in Western Europe and the United States; namely, in—

Great Britain and Ireland	$235,000,000
France	495,000,000
Germany	200,000,000
Italy	300,000,000
Switzerland	14,000,000
Belgium	60,000,000
United States	675,000,000
In all	$2,004,000,000

Contemporaneously with the circulation of this quantity of paper money in these countries, we have seen (p. 207) that there was in 1873 in Europe and America 2,150 millions of dollars of gold and 2,350

millions of silver in circulation. These relative quantities were then violently disturbed. The action of Germany largely contracted the silver currency of Europe, and thereby the total volume of specie there, causing a corresponding pressure, which is resulting in such failures as those of the Bank of Glasgow and the house of Heugh, Balfour & Co., of Manchester, and other banks and firms of Great Britain which have dealings with India, the silver funds of which country are unavailable to discharge its liabilities in Great Britain except at the ruinously reduced prices of silver in London. For while gold only is legal tender in England, silver only is so in India; and therefore India can pay debts in England, with silver, only at the prices which silver commands as merchandise in London. The effect is serious upon India. As a single instance of its working: The Indian Government is in the habit yearly of selling 150,000,000 of rupees in bills on India in London. When silver commanded its monetary value these rupees produced $75,000,000 to the Indiar Government; but now they produce only $60,000,000, and the greatest dependency of England is in danger of being bankrupted by the policy of the home government. Mr. Cernuschi says of the effects of this policy:

"The Indian budget is disarranged; public works are countermanded, and all administrative and financial policy in India has no longer but one aim—to recover by no matter what reduction of expenditure what is lost by the fall in exchange. Never before was so paltry a programme imposed on a great government."

Our own country, having as yet had no silver in circulation, having no payments due to it from the East, and having restored to silver its legal tender function, does not suffer as Europe is suffering. Our immense excess of general exports over imports, which will continue for a series of years, is drawing heavily upon the financial resources of Europe, and increasing the distress prevailing there. It is possible that under the powerful effects of the present favorable balance of trade, we shall soon have all the gold and silver which we shall require as a currency, and have little use or room in trade for even a redeemable paper currency of any large amount. I believe that we are at the threshold of an era of prosperity unexampled in the past history of this or any other country.

Yet the distress of Europe, under the pressure of its large armies, its great and increasing public debts, and the exhaustion produced by an adverse

condition of the foreign trade, may in some way reäct upon us; and unless the disturbance in the relations of the precious metals be corrected, it is certain that Europe, and it is possible that America, will have to tide over the crisis by increased issues of paper money. That, however, is more a question for Europe than America. The proper theatre for the greenback agitator is there, not here. The logic of events will soon silence him on this side of the Atlantic; and he would find a hearty welcome among the Socialists and Communists across the water.

Returning from this digression, it is certain that the world could not if it would, and would not if it could, suffer the thirty-five thousand millions of public bonds outstanding to derive any increase in value from the enhancement of gold which the movement of England and Germany against silver has temporarily effected. The ablest English writers, among them Mr. Ernest Seyd, Fellow of the Royal Society; Mr. Samuel Smith, president of the Liverpool Chamber of Commerce, and several writers in the London *Economist*, several French writers of eminence, and such great bankers as the French Baron Rothschild, are as earnest as they are able in advocating a return both by England and Germany

to the double standard of a gold and silver legal tender currency.

The public debts of the world cannot be paid, nor even their interest met, in gold at an appreciated value. It would be fatal to the interests both of creditors and debtors, as Baron Rothschild wisely insists, for money to become or to be made dearer. History teaches that the interests of mankind are promoted by that gradual and permanent dilution of the value of money which results from additional discoveries of the precious metals. The legal-tender quality will ere long be restored to silver throughout Europe. If not, there will be left the alternatives of diluting the currency there with paper money, or the civil convulsions which the Socialists and Communists stand ready to inaugurate.

THE END.

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